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CHARLES ELMORE CROFT
CLEVELAND

Nos. 855, 856.

In the Supreme Court of the United States

OCTOBER TERM, 1941.

UNITED STATES OF AMERICA,

Appellant,

v.

THE UNIVIS LENS CO., INC. *et al.*,

Appellees.

No. 855.

THE UNIVIS LENS CO., INC. *et al.*,

Appellants,

v.

UNITED STATES OF AMERICA,

Appellee.

No. 856.

ON APPEAL FROM

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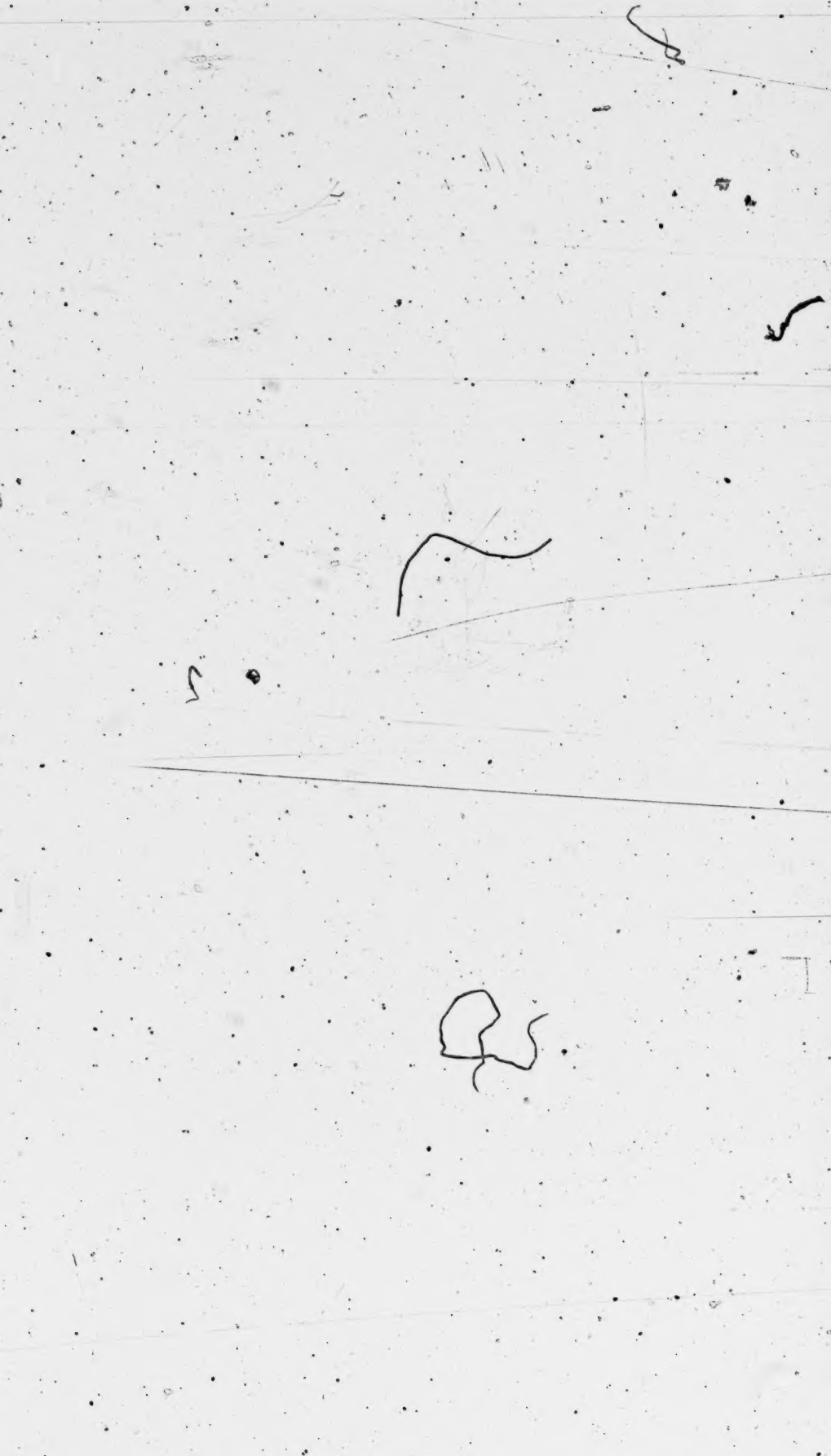
BRIEF FOR APPELLEES AND CROSS-APPELLANTS.

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ROWAN A. GREER,

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*Counsel for Appellees and
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BRIEF FOR APPELLEES AND CROSS-APPELLANTS.

I. STATEMENT OF THE CASE.

The statement in the Government's brief as to the parties, the opinion below and the questions presented is in substance correct.¹

II. JURISDICTION.

The cross appeal by the Appellees in No. 856 is conferred by Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823, 36 Stat. 1167, 15 U. S. C. § 29) and Section 238 of the Judicial Code, as amended (36 Stat. 1167, 38 Stat. 804, 43 Stat. 938, 28 U. S. C. § 345).

¹ For convenience the defendants are designated Appellees throughout this brief. All emphasis ours unless otherwise stated.

Probable jurisdiction was noted on February 2, 1942. (R. 714.)

III. THE ISSUES AND ASSIGNMENTS OF ERROR.

The issues raised by the cross appeal in No. 856 are:

1. The legality of the prescription-licensee license. (Assignments of Error are I to XV inclusive, R. 693-698 and XXXII to XXXVI inclusive, R. 703-705.)

2. The legality of the Fair Trade Agreements under the Miller-Tydings Act. (Assignments of Error are XVI to XXVI inclusive, R. 698-701; XXXVII to XXXIX inclusive, R. 705, and XLI, XLIV, XLV and XLVI, R. 706-707.)

3. Does the record show any improper or unlawful concerted action by the defendants with their licensees to prevent The Titmus Optical Company or any competitor from manufacturing lenses in competition with appellees? (Assignments of Error are XXVII to XXXI, inclusive, R. 701-703, and XLX, XLIII, R. 705, 706.)

4. Were the appellees subject to the jurisdiction of the Court below for the purposes of this suit? (R. 45, 712.)

IV. STATEMENT OF THE FACTS.

The Government's statement of the facts in this suit in equity is inadequate, incomplete and therefore inaccurate. We, therefore, take the liberty of restating these facts so that the Court will have a clear understanding of our position that the license restrictions here involved are both reasonable and necessary to the enjoyment of the full reward from the patents and the protection of the public interest. The ulterior motives attributed in the Government's brief to the appellees will be seen to have no foundation in fact when a complete and fair statement is made. This resume

is based upon the opinion and the final Findings of Fact by the District Court as reflecting the evidence in the case. (R. 655-682.)

A. Nature of the Ophthalmic Industry and Facts as to the Method of Doing Business by the Appellees.

As this Court, through Mr. Justice Brandeis, pointed out in *Chicago Board of Trade v. United States*, 246 U. S. 231, the first test of determining whether there is any violation of the Antitrust Laws is to understand the peculiar nature of the business and industry where the events are alleged to have taken place.¹

Therefore, before discussing the Sherman Act, here involved, and its applicability to the acts of the appellees, it is proper to first lay before the Court the facts both as to the manufacture of bifocal lenses under the patents here involved as well as to how the licensing system or method of doing business of the appellees fits the existing conditions of such manufacture. It will be found that the Univis license system "promotes competition" in that all competitive bifocal licensees meet on their own merits and anyone qualified can handle or deal in such lenses.

Our State Governments have gone to great lengths, through state examination and control boards of optometry (in addition to control by medical societies), to insure the training and skill of those permitted to prescribe, design

¹ "Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition, or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts." 246 U. S. 231, 238.

and fit lenses.¹ Appellees license only those fully approved by such controlling agencies, medical associations and professional associations. It would be wholly unreasonable to require these appellees, as the Government is seeking to do, to sell to anyone, no matter how unqualified for the manufacturing, technical and professional tasks necessary, when every effort of public agencies has been directed in increasing tempo over the past years to protect the wearer of eyeglasses. The satisfaction of the patient is the very essence of the success of the patented lens under the appellees' licensing system.

The ophthalmologist is a member of the medical profession who both examines eyes and prescribes the type of corrected lenses the patient should purchase, and acts as a physician in surgical and other work to correct the pathological conditions of the eye. He does no designing of the lenses. The optician performs the mechanical work of making the lenses, and also designs the lenses, by working with the patient. A second examination of the patient is made in addition to the first examination of the prescribing physician. It is not enough to have a prescription: someone has to design and fit that prescription to the particular requirements of the particular patient, and the optometrist or optician (prescription or fitting licensee) must perform this service, which is a part of the manufacturing operation in making a complete lens. The optometrist (prescription licensee or fitting licensee) both prescribes and designs lenses. The optician designs and usually grinds. He either does a part or all of the mechanical work himself, or sends it to another optician or a wholesaler-licensee grinder, who has a grinding establishment

¹ All states have such laws. For instance Alabama's law will be found at Section 2873-2894, Code of 1923 as amended 1935. Code of Alabama. Eyeglasses also now come within the control of the Food, Drug and Cosmetic Act of 1938 because such devices affect public health.

The practice of optometry "is a profession relating to public health." *Pennington v. Behelli*, 59 Pac. (2d) 448 (Calif.).

for manufacturing lenses wholly or partly, according to prescription and design specifications. (R. 85, 88.)

In this industry, manufacturing is not complete until the lenses are fitted and adjusted to the satisfaction of the wearer on the wearer's face by the highly skilled optician or optometrist, both of whom deal with the patient—and only then is a sale made of the completed lenses called for by the patents.

The purpose of eyeglass lenses is to correct optically, by the lens mechanism, the deficiencies of nature in the eye, in order to reproduce the effect of normal vision.¹ This is a highly individual and vitally important matter to the wearer of glasses, both for vision comfort as well as health, it being well known that the nervous system of the eye has a very close relationship to the physical welfare of the individual.

No two individuals have a facial set of characteristics, reading habits, posture, such as the inclination of the head to the body, and occupation, alike. Each one of these factors requires a particular "design" of a pair of glasses to suit the individual's physical makeup, his occupational pursuits and habits, in addition to the prescription for the lenses. Even if two prescriptions should be alike as to defects in the eyes, the design of the lenses otherwise will widely vary. (R. 180). One patient may be an architect whose occupational habits require some near-vision work, a great deal of intermediate vision work by walking over the structures which he is building, and long distance vision in the driving of his car. His eyes may be set wide apart and at different heights in his face, and

¹ Persons over forty usually experience the necessity of using bifocal eyeglass lenses because of the lack of active muscle adjustment to change the focus of the eyes naturally. This has resulted in the development of eyeglass lenses having two focal points, and, in the case of trifocal lenses, having three focal points. The trifocal lens is one in which the glass insert has an intermediate focal point between the near-vision and distant vision focal points. The corrective curvatures are fixed by the prescription.

he may be either erect or stoop-shouldered—he may have long arms or short arms. His work may markedly contrast with that of a lawyer or surgeon with a great deal of close work to be done. All these factors of “design” must be carefully regulated and adjusted to each individual’s physical and occupational requirements by those who are highly trained specialists in the prescribing, designing and fitting of lenses—no one of these acts is enough to secure the result.

The ophthalmic lens industry is unusual by reason of its inherent character. You cannot make eyeglasses to order in a factory remote from the purchasers of lenses, nor can you make them from stock like ordinary merchandise. There is no such thing as a mass production of eyeglasses. You cannot produce them in a central factory or safely buy them from the counter in a retail store.

“Stage” manufacturing is essential in the making of lenses. Eyeglass lenses can only be prescribed, designed and fitted by one having professional or quasi-professional training and such technical and artisan knowledge as to enable him to make each pair of lenses a custom job, designed, prescribed, ground and fitted for one person only. The whole chain of manufacturing operations from the original “blank” is not complete until the final adjustment and checking of the glasses are performed on the face of the wearer.

“Blanks” are the rough blocks of glass consisting of a distance vision portion and a near-vision portion which must be manufactured in some central plant in a series of general sizes and dimensions and shapes of inserts. Thereafter, these blanks, which are of no use for any purpose except to be made into finished lenses by further manufacturing processes, are shipped to a wholesale grinder or retail finishing licensee grinder, who has intricate machinery and skilled workmen for grinding the optical corrections on these blanks and complying with the design instructions. It is not enough to merely grind the lenses according to the prescription; they must also be ground

according to the design instructions of the skilled licensee in addition to the prescription.¹ It is his instructions that control the grinding, the location of the reading insert and all the other lens design factors.

"If he (prescription retailer) is an optometrist he has refracted the patient's eyes, prescribed Univis, designed the size, shape, contour of the lens to conform with the patient's peculiar facial characteristics; he has designed the size, heights and positioning of the reading segment to conform to the patient's particular vocation and other personal habits, and he has sent those instructions, after he has planned and designed the lenses, to a laboratory for completion. Then when they are received back he further fits them to the patient's face. He computes the angle of the lenses to give that vision, and that covers it." (Silverman R. 90.)

And the wholesaler grinder, Potter, a Government witness, testified: "The retailer (licensee) sends us the order with the full descriptions and measurements that he requires, and we have to make our lens to correspond with both formula and the measurements." (R. 179.) And when asked as to a typical case of such measurements, he said:

"Well, the instructions have first of all to do with the size of the lens. Then they have to do with the height of the segment, how high the segment is to appear in the lens, and then the amount of decentration in the segment, whether it is to be set in or out. They vary in almost every instance. They are never alike. On one of those orders here, in one case he had the segment decentered out for one eye and in for the other, which means that we have to be doubly careful in a case of that nature." (R. 187.)

The importance of the prescription licensee's operations on the final stage of manufacturing was testified to as follows:

¹ Such design instructions must contain the following elements of instruction: shape, centering and positioning of segment, size of lens, and pupillary width.

"Q. How does the retailer [optician or optometrist] affect the quality of the lens which is finally delivered to the patient?

"A. Well, I am glad you asked that question, because the finest lens made under the finest grinding technique can be ruined to such an extent by an incompetent retailer and it would be of no value to the public at all. For example, I can take the best ground pair of Univis, wherein we put the best that there is to put into lenses in our plant; the wholesaler has done likewise; the retailer through incompetence will design the lenses improperly, position the lenses, and order the lenses in his designing and planning so that the segment is in wrong position, wrong height, wrong decentration; and that pair of lenses would render, in my judgment, worse service than a poor pair of lenses properly designed by the retailer. The retailer's function, in my opinion, is of vital importance." (R. 106.)

"* * * Well, that is to say, presuming that a man works on a linotype machine, if you simply order one pair of Univis bifocals with the focal power, and stop right there, that man in all probability would have a pair of lenses that would not be suited at all for his work. The man with a linotype machine before him might require a trifocal. He may require a lens with a segment pretty well toward the center of the lens. So they determine that. Then there is the matter of determining the reading habits. Some people might read well down on their laps. Others may have a habit or reading up higher. Some may converge more than others, their eyes converge more than others. It is necessary to determine all of these factors and then proceed to design and plan your lenses so that those segments will conform to that design, and so that when they are finally given a finished pair of glasses, the patient can get binocular vision and get the maximum efficiency from their lenses." (R. 107.)

As to the Government's claim that all the prescription licensee does is to merely take a pair of tweezers and adjust and fit the lenses to a patient's face, this is incorrect,

as the Findings of the District Court show where the Court correctly stated the evidence as follows:

“As a matter of practice the retailer licensee who is in direct contact with the customer determines the shape, the centering and the positioning thereof on the face of the wearer and the mounting of the lens in a frame in order to give the maximum vision and comfort to the wearer. The prescription and design instructions for grinding is forwarded to a wholesaler to whom the lens blank has been sold by the Lens Company. The lenses when completed are then in turn delivered to the finishing retailer who adjusts and fits them to the eyes of the wearer to see that they comply with the prescription and design instructions, resulting from the examination of the wearer by the licensee.” (R. 671.)

These major steps in the manufacturing process are essential to the successful use of the lens by the patient. As this Court knows, when any article of manufacture is to be made, particularly an article that is custom made for a particular customer, the actual physical work is often relatively small in importance, compared to the work of the designing engineers who design the apparatus, the inspectors who carefully check it to see that it complies with the design, and the service men who place it in the customer's plant and see that the machinery operates. This prescription licensee fulfills all these manufacturing functions in the lens manufacturing process, which are usually performed in a central plant; he designs, and in many cases prescribes, he inspects and he ultimately acts as the service man in completing the manufacture by installing the custom made article on the patient's face.

Conversely, the distributor who grinds the lenses could not merely mail them or hand them to a patient and expect the lenses to give the patient satisfaction. He could not fill mail orders of patients he had never seen merely from a prescription, without someone else having interpolated the prescription to the particular patient's needs by design

instructions. It is inevitable that there must be someone, such as the prescription licensee or finishing licensee, to complete the manufacturing operation. The lens under these patents is not complete until the work is finished to the patient's satisfaction. It is not until this final step is taken that the lenses of the patents involved herein are sold for the first time as articles of manufacture, finished for use as bifocal eyeglass lenses.

B. Three Stages of Manufacture.

It should be borne in mind that there are three distinct stages of manufacture before the "blank" is of any practical commercial value for use in any way and the "blank" from which the completed or finished lens is made possesses no use and fills no commercial purpose except when used with the end in view of further manufacturing process thereon to produce the finished lens as covered by the various patents of The Univis Corporation. (R. 671, Finding No. III.)

The first stage of manufacture consists of producing the "blank" manufactured out of blocks of glass in which the near vision inserts are fused for the bifocal lenses that are ultimately to be made. In the case of the Univis lens "blank" this requires a forty-four hour process from raw glass to the semi-finished "blank" in order to produce first class lens "blanks" of first quality only. (Ex. L.)¹

¹ These steps are explained, covered and described in some of the patents as the earlier steps of manufacture leading up to the final complete lens. For instance, the drawings, specifications and claims of the Watson and Culver patent No. 1,729,654, the Watson and Culver patent No. 1,822,606, and the Watson and Culver patent No. 1,868,863 are devoted exclusively to the making of blanks; while the Watson and Culver patent No. 1,632,208, the Stanley patent No. 1,845,940, the Hancock patent No. 1,876,497, the Stanley patent No. 1,899,777 and the Hancock reissue patent No. 19,142 describe how these blanks are made prior to the completion of the final lens product and claim the lens product itself. Defendants' Exhibit F.

This blank is manufactured by The Univis Lens Company, Inc., under license from The Univis Corporation but it is not useful as an eyeglass lens or for any other commercial purpose until it has been further manufactured by other licensees and finally fitted to the eyes of the wearer through the suitable examination of those eyes and the further processing of the "blanks" by grinding to the prescription of the doctor prescribing the correction necessary in the completed bifocal eyeglass lens. (R. 68-69.)

The second stage of manufacture consists of cutting, grinding and polishing both sides of the "blank" of the first stage to size, shape, design and prescription needs. This stage of the manufacturing process is done by wholesale distributor licensees of The Univis Corporation or retail finishing licensees with proper equipment and skilled operators competent to perform the operation, on order for the prescription licensee. (R. 80 to 85 and Ex. C.)

The third stage or process of manufacture consists of first designing and then cutting, grinding, fitting and adjusting to the facial conditions of the patient-purchaser. This third state is to complete final manufacture of the "blank" by designing, cutting, grinding and fitting to the exact contour of the face of the user, and taking proper fitting steps to guarantee the proper service of the completed lens to the ultimate and particular user and customer.

The function of the prescription, non-grinding licensee, under the Univis license, is not as indicated by counsel for the Government to be the mere adjusting of frames attached to the finished lens. He actually participates in the manufacture of the lens. He "designs" the lens and his function "is of vital importance" because a good pair of lenses, improperly designed, "would render, in my judgment, worse service than a poor pair of lenses properly designed by the retailer." (R. 106.) This testimony is uncontradicted. Various witnesses concurred. His work

is an integral part of the process of manufacture under the patents of The Univis Corporation. Even his fitting of the glasses after manufacture and the receipt of the finished lens from the finisher is a part of the manufacturing process for, as testified to by the Government's witness Cook, "the lens is affected by it" (R. 193), that is, by the final adjusting done by the prescription fitting licensee before release to the patient, the first purchaser of the completed lens.¹

The Government's witness Potter, a wholesale distributor and grinder, operating one of the largest grinding establishments in this country, testified that this data from the prescription licensee in addition to what is ordinarily referred to as the prescription is necessary to produce a finished lens.

"Q. Taking two prescriptions exactly alike but which are to be used for different persons, can you simply follow the prescription without any further information and have a satisfactory fitting of those eyeglasses?

"A. No, we have to have complete instructions.

"Q. And those instructions come from the licensee or person who is ordering glasses?

"A. They do." (R. 180.)

There are thus these three stages of manufacture: (1) the making of the blanks, (2) the designing and fitting of the prescription to the patient and (3) the grinding of the blanks to the lens prescription and other instructions. The Univis Corporation licenses the blank manufacturer which is The Univis Lens Company; the wholesale and retail grinder and the retail prescriptionist and designer and

¹ The patient calls upon the prescription or finishing licensee; if the former, then the design estimates are sent with the prescription to the wholesale grinder licensee and then the prescription licensee finishes his work and sells the lens for the first time to the patient. If the patient calls on the finishing licensee all the work is done in his establishment and the first sale is made. There is no difference in practical effect.

fitter, so that all steps of manufacture will be controlled until the final product, the lens, covered by the patents, is sold to the patient to his satisfaction.

The facts further show, without contradiction, that both the blank and the finished lens are always sold in containers bearing the "trademark, brand or name" of The Univis Lens Company and is in "free and open competition with commodities of the same general class produced or distributed by others," because it only constitutes 2½% of the bifocal lenses sold. (Finding XIII, R. 677.)

C. The Open End Policy of the Univis Licenses.

The policy of the Univis Corporation is to extend its licenses to all in the trade who are competent to do the work. The Court will appreciate that this is not a case of ordinary commercial selling and distribution which can be done without restrictions in the licenses of those licensed.

The lower court found:

"The Univis Corporation has consistently followed an 'open end' license policy by which all licensees of the same class are charged the same license fee and have the same prices fixed for performing the same manufacturing service; and that the licenses are open to all qualified licensees. The basis of its policy is the maintenance of highest standards of quality, service and performance by each licensee at each stage of the manufacturing process. Such policy is founded upon the peculiar nature of the business of manufacturing, prescribing, fitting, and distributing eyeglass lenses in a series of successive steps, by different types of manufacturing establishments at different distances from the customer." (Finding of Fact III—R. 670-1.)

The Univis Corporation has not followed a policy of exclusiveness, but a policy of opening the use of these patents to anyone qualified to work under them. For instance, as to its manufacturing licensees for making blanks,

in addition to the non-exclusive license to the Unavis Lens Company, it has licensed the Shuron Optical Company (R. 69-71) and the American Optical Company (R. 203, Government's Ex. 3.) In neither case was there any price control, but simply a non-exclusive license to manufacture the blanks and sell them as they pleased.

Fifty percent of the possible distribution licensees have been licensed by Unavis without restriction as to the licensee's sales of other competitive bifocals. These appellees are content to let the merit of the product sell it so long as competent people help make it and sell it.

D. How Licensees are Selected.

When the Unavis Corporation issues a license to any one of its licensees, it risks the reputation of the lens according to the competency of the licensee in prescribing it, designing it, grinding it, and finally fitting it to the patient as the case may be. Its likelihood of profiting from the patent is in direct proportion to the licensee's skill in satisfying the ultimate patient-customer, which means goodwill and repeat business. The only exception to the Unavis policy of an "open end license" is simply this: The licensee must be competent and, of course, a person or firm that is reliable in a financial and business way and morally responsible. These, we submit, are wholly reasonable requirements of a license irrespective of the law elsewhere stated, that the owner of a patent has a right to license anyone or decline to do so no matter how capricious his motives and reasons may be. (See pp. 59-72 this brief.) Silverman, President of Unavis, testified "it is our desire to have as many prescription licensees as possible" (R. 90) throughout the entire United States.

"Now, obviously there are certain types of retailer practitioners who have no interest in Unavis because they only handle factory culls or second quality or third quality lenses, and we do not manufacture or sell a second quality lens. I think perhaps we are the

only manufacturer in the United States that has never marketed or sold a sub-standard lens. If a man has no interest in high quality lenses, and does not maintain that type of practice, he would be no prospect for Univis by his own method of operation, and that is determined very quickly." (R. 90.)

As to determining the qualifications of a licensee, he said these licensees are investigated by personal visits, investigation of the standing and competency of them in the trade and their reputation for integrity:

"Q. Do you mean to indicate that the company will license every retailer who is desirous of receiving a license?

"A. If he conforms to our policy, yes." (R. 104.)

And further Silverman testified as to the Univis policy with respect to the patient:

"A patient knows two things when he goes into a Univis licensee for a pair of Univis lenses, and he will find out two things. First, that he has secured the best quality lens that he can buy, regardless of price. And secondly, that he will pay a price consistent with a high type of service, and that price uniform throughout the United States." (R. 105.)

As to the wholesaler's qualifications, he must have manufacturing facilities and skilled personnel. He is required to make a very substantial investment in a wide variety of lens blanks. His men must be capable of being educated to grind the Univis lenses which require more care than other lenses. There are 21 different types of multiple focal lenses made under the Univis patents. The wholesaler must be capable of reading the grinding charts and grinding instructions and also be able to use the special tools supplied by the Univis organization. To insure this, the supervision of manufacturing by the wholesaler is carried right into his plant, as the witness Silverman said:

7 "A. In the first place, the Univis Lens blanks are computed on a series of what are known as corrected

curves; that is, a series of curves for each individual prescription, so that you get the widest angle of vision and the best result from the prescription; that is, the consumer or wearer gets it. Now, those curves have all been computed by our technical department, and there is a chart, and that chart shows the curve to be ground on every prescription. We furnish tools to the distributor, special tools that are made to a special series of curves, both grinding and polishing tools for the segment surfaces of Univis, and then, of course, we have printed grinding instructions covering the grinding for cases of vertical imbalance and prismatic effects. If you want me to go into that, I will be glad to, but it is rather complicated." (R. 77-78.)

The prescription licensee, who is usually an optometrist, must have the professional and technical qualifications for prescribing and designing the lenses to fit them to the patient. This must be accompanied by good moral character, financial ability to discharge his obligations and the usual commercial integrity because he has both professional and commercial activities. (R. 90-91.)

The retail finishing licensee is the one who combines the functions of the distributor and the prescription licensee in one establishment. He is usually known as an optician. Ordinarily prescriptions by eye physicians are sent to the optician who does the designing, grinding and fitting.

Licensees are investigated by the field representatives of the licensor and after once being selected are carefully supervised to see if they maintain the standards of quality and use the technical services of tools, lens calculations and other data provided for them. (R. 91, 92.) The licensor always must recognize that unless the licensee is successful he would neither have the money to carry out his quality operations nor will he be encouraged to make the requisite investment in personnel and machinery as well as in professional training. He, therefore, investigates whether the public is being adequately served in a community by exist-

ing licensees. (R. 76, 77.) The number of licensees must not be out of proportion to the total number of patients because otherwise the licensee would not make sufficient to justify his investment if he divided the field too extensively. As the demand for Univis lenses is increased the total number of licensees is increased. It is now approximately fifty per cent of the total number of possible licensees and this number has steadily increased.¹

The District Court said:

"The Lens Company employs service men to educate the lens grinders employed by the licensees, for these Univis lens blanks are computed on a series of corrective curves, i.e. a series of curves for each individual prescription to the end that the widest angle of vision may be obtained by the consumer. Such curves have been the subject of computation by the technical department of the Lens Company, are charted, and the chart discloses the curve to be ground on every prescription. In addition special tools are furnished to the wholesaler or finishing retailer." (R. 658.)

Unless the complete manufacturing operations are thus controlled and supervised and licensees selected accordingly, the patents are valueless and can never be enjoyed because this is the only way that their subject matter can be used and the only way in which the public can get the benefit of these inventions. The licensee selection is made accordingly.

E. Price Cutting Restriction.

The term "price cutter" has been given a special meaning in this trade. It is a term that defines what is

¹ Beginning in 1931 it had 1,597 retail licensees; in 1932, 3,066; in 1933, 3,673; in 1934, 4,163; in 1935, 4,528; in 1936, 5,218; in 1938, 5,629; in 1939, 5,850; in 1940, 6,635; and through February 17, in 1941, 6,488. On January 1, 1940 the number of wholesale distributor licensees was 329 and this number was increased to 331 through February 17 of 1941.

more familiarly known as the "bait" advertiser, who is a man who advertises low prices and when the customer responds by entering his place of business, his high pressure salesman sell the customer low grade merchandise at exorbitant prices. The low price offered in the advertising is merely a "bait" to get the victim into the establishment. On this the witness, Silverman, testified as follows:

"I think the term 'price-cutters' we all know. We all know what price cutters are, but **the term 'price cutter' in the optical business is very often a misnomer.** I prefer to call him a price raiser rather than a price cutter, because that includes that group that advertise low priced glasses, and the experience that we have and the information that we have indicates that in most instances they advertise a low price, and handle a poor quality of merchandise and charge higher prices than the most legitimate and highly ethical establishment in the city for similar merchandise. In many instances they charge much higher prices for inferior types of merchandise, so I prefer to state a price cutter is not always one who takes a piece of product and cuts it; but rather one who gets a much higher price but uses bait advertising to get people into his establishment; and people like that are not eligible because primarily they would not have interest in Univis other than to duplicate an occasional broken lens that might pass their way.

"The Court: In other words, you do not restrict the term to the narrow meaning of one who takes a trademarked article, which uniformly sells at a given price, and slashes that price?

"The Witness: No, sir. I would not restrict it entirely to that, your Honor." (R. 95.)

The company is not averse to advertising and is naturally interested in legitimate advertising (R. 101), but it is opposed to one who advertises prices as a sole inducement in order to get the unwary into his place of business.

"That refers to the bait advertising practitioner, of which there are quite a number, unfortunately, throughout the United States.

"Q. And the third question is that his prices are lower than average competition?

"A. Yes. That is the procedure of the bait advertiser. He always advertises something for less and then when he gets them interested he charges them any price that the tariff will stand." (R. 102.)

It is the policy of the Univis Corporation not to license such bait advertisers, colloquially known as "price cutters." It is found that their methods of business would ruin the goodwill in these lenses because the public would not get fair prices and the highest grade lenses, competently manufactured to fill the patient's needs. The Univis organization, through this system of making and prescribing and fitting lenses, is the only one making and selling only first quality lenses and will not sell any other quality knowingly. (R. 90.) It has, therefore, had the reasonable requirement that its licensees must also perform on a first quality basis in order to accomplish this desirable objective both for the appellees and the public and the full enjoyment of the patented inventions.

F. Free and Open Competition in Bifocal Lenses: No Restraint.

Appellees are not charged with conspiracy with any competitive blank manufacturers. There is no conspiracy charge in the bill with the licensees. The lower Court so found. (R. 679, Finding VIII, IX, X.) There is free and open competition in bifocal eyeglass lenses. Such competitive lenses as Kryptok, Wide-Sight, Panoptik, Ful-Vue, Titmus and others, are available in far larger quantities than those of Univis, so that the patient has a wide variety of bifocal eyeglass lenses to choose from with a wide range of prices depending upon their comparative advantages. The competition in goods of this type is free and

open and extremely vigorous. (R. 100, 170, 198, 199.) The licensees of Unavis handle large quantities of these other bifocal eyeglass lenses; there is no restriction by Unavis on the licensees as to what other competitive lenses they may or may not handle. (R. 677, Finding XIII.)

The licenses of the Unavis Corporation with their restrictions as to minimum prices and qualified licensees merely seek the attainment of full reward to the owner of the patents in question as compensation for the patented thing, to wit, the eyeglass lenses. The Government admits that "The controlling fact is that the entire license structure is built upon a single contribution to science and the useful arts—specifically the claimed invention of an allegedly unique type of lens blank or lens for spectacles" (p. 32, Government brief). Then the Government also admits "To be sure, these restrictions make the purchase of Unavis lens blanks more attractive by limiting the number of persons who may handle Unavis lenses and fixing a minimum price for such lenses." (p. 43.) This, it is admitted, "embraces the reward for appellees' invention." (p. 43.) Therefore, the licenses, merely making the sale of the patented thing "more attractive" in order to sell more lenses and including a reward to the patent owner for his invention, cannot be regarded as unlawfully destroying competition.

This peculiar and unique nature of eyeglass manufacture is a practical matter, manufacturing being carried out by *stages* and in *local communities*, where each of the wearers of these eyeglasses reside. It is not practical to manufacture eyeglass lenses at a central factory because each lens must be adapted to a particular wearer and made *after the requirements of the individual wearer*, both as to prescription, design and construction of the lens, carefully determined by experts who must work directly with and repeatedly test, examine, as well as observe, the wearer.

The enjoyment of the Univis patent rights necessitates such a method of manufacturing and distribution of the manufactured products. The requirements of the public interest likewise necessitate it. It should be thus clearly understood that the peculiar method of doing business, which practical requirements of this industry have placed upon these defendants, is not of Appellees' making. They have simply adjusted their enjoyment of their patent monopoly over eyeglass lenses to the requirements that are made necessary by physical conditions of the wearer, and the requirements of proper manufacturing of lenses to satisfy the wearer's requirements. *Any other course would be markedly against the public interest because of inconvenience, delay and injury resulting from defective lenses.*

The product of the wholesaler cannot just be handed to the patient without anything more on the part of the optician or optometrist. As a matter of practical common sense, it will be seen that this somewhat complicated stage manufacture is inevitable. It is for that reason that the patents specify, in each of the claims, "lenses." This is because "lenses," as defined in Paragraph 6 of the Bill of Complaint, mean something "manufactured of glass to give normal vision to the user thereof" and that is the **final product which is sold only once**, and that, at the time of being so completed when it fits the user for whom it has been specifically prescribed and designed.

V. PATENTS OF THE UNIVIS CORPORATION.

This brings us to the fundamental factual inquiry in this case: what do the patents cover?

Appellees' position, sustained by the Court below, is that the patents cover a "lens" and the necessary manufacturing licenses leading up to the final completion of that lens by stage manufacturing are valid. Paragraph 6 of the bill defines a lens as follows:

"The term 'lens' wherever used in this complaint, means a lens manufactured of glass to give normal

vision to the user thereof, as in all types of spectacles and eyeglasses, etc.”

This definition was adopted by the Court. (R. 672, 673.)

Paragraph 9 of the bill said:

“The term ‘Univis bifocal’ or ‘Univis lens,’ wherever used in the complaint, refers to a type of bifocal lens incorporating features claimed by certain patents controlled by defendant, Univis Corporation, etc.”

On the other hand, the blank which is made by The Univis Lens Company and sold as a blank while containing parts of the claims in the rough, is not a usable product through which you can see. This rough piece of glass must be designed and ground to a prescription and design into a lens before it can be of any use. The Court so found. (R. 673.)

Patent No. 1,632,208¹ covers a Type B lens. (See sample case Exhibit K.) The specification says:

“This invention relates to lenses particularly those which are used with spectacles and the like.”

Typical Claim 2 reads as follows:

“2. In a fused bifocal lens, a countersink of one refractive power and a fused zonal² insert of a different refractive power.”

Stanley patent No. 1,845,940 covers the R type of lens.³ (Exhibit K.) The title of the patent is “Lens” and the patentee says “My invention relates to eyeglasses.” Claim 1 is a typical claim reading as follows:

“1. In a lens, a major lens and an insert of higher index glass from the major lens, said insert consisting of a circular member less than a full circle with a flat top and a flat bottom of different lengths, the vertical

¹ This patent was sustained in *United Kingdom Optical Co. v. Benedict, Opinion*, Nevin, J., D. C. U. S. Southern Ohio, R. 558.

² A zonal insert is a section of a sphere having round ends and a flat top and bottom.

dimension of said insert being greater than the radius of the circle but less than the diameter of the circle."

Here again the lens is the final product which is claimed.

Stanley patent No. 1,899,777¹ covers the Type D bifocal eyeglass lens (Exhibit K). The patentee says "My invention relates to bifocal lenses" and the "resulting lens of my invention has the very substantial advantage of wide lateral, long distance, vision, etc." Each of the claims is limited to a lens or bifocal lens or a multifocal lens. Typical Claim 1 reads as follows:

"1. In a **lens**, a major lens and an insert of different glass from the major lens, said insert consisting of a circular member less than a full circle with a flat top, the vertical dimension thereof being greater than the radius of the circle but less than the diameter of the circle."

Silverman patent No. 1,879,769 is for the purpose of producing a lens. It deals primarily with the grinding procedure followed by the Univis wholesale and finishing retailer licensees in correcting for prismatic imbalance.² The Hancock patent No. 1,876,497 is entitled "Lens," the patentee saying:

"This invention relates to improvements in lenses and has particular relation to an improved construction of lens of the trifocal type * * * A further object of the invention is the provision for a trifocal lens, etc."

Claim 1 is typical of the lens claims of this patent.

¹ Patent sustained by Otis, J., U. S. D. C. Mo. Western Division, *Univis and United Kingdom Optical Co. v. Morgan*, R. 64, 65; patent invalidated *Univis v. Rips*, 104 F. (2d) 749 (6th C. C. A.); certiorari denied, 308 U. S. 592.

² Prismatic imbalance is that condition where the right and left eye view an object in different planes whereas they should normally look at the object in the same plane. This condition, unless corrected, results in distortion of the image.

The Univis Corporation also owns and licenses the blank manufacturer, Univis Lens Company, under its patents for the manufacture of blanks such as patents Nos. 1,729,654, 1,822,606 and 1,868,863. These patents are devoted exclusively to blanks in contrast to the preceding patents which deal with the making of lenses. (Defendants' Exhibit F, R. 499, 504, 510.)

The District Court's finding on this subject reads as follows:

"The remaining patents set up by the defendants in their answer are owned or controlled by The Univis Corporation and are also, for the purpose of these proceedings, valid in law. With the exception of one covering a polishing machine and two for telescopic bifocal lenses, that are in no way related to the subject matter of this case, but cover and relate to the process or method for manufacturing lens blanks." (R. 678.)

The Government now seeks to avoid the finding of fact and conclusion of law of the District Court that the patents covered lenses and the licenses were good until the first lens was sold; its position in the District Court was that the lens patents only covered blanks. The Government now tries to shift its ground to avoid the embarrassment of the plain meaning of the patents covering lenses to say that the monopoly is exhausted because the licensor receives some royalty for licensing the making of blanks. This ignores the fact that the additional compensation to the licensee came from the work of the subsequent licensees which insured the successful completion of the patented lenses with consequent repeat orders.

This position of the Government, if sustained, would also greatly expand the doctrine of contributory infringement in situations such as this where the blank is not an article of commerce but only made specially for the purpose of making the ultimate lens. Such a proposal would open the door to full recovery against contributory infringers contrary to long established doctrine. See *Walker on Patents* (Deller Ed. Vol. 3, Sec. 508); *Individual Drink-*

ing Cup Co. v. Errett, 297 F. 733 (C. C. A. 2); *Duplex Envelope Co. v. Denominational Envelope Co.*, 80 F. (2d) 179 (C. C. A. 4); *Lilly v. Laucks, Inc.*, 68 F. (2d) 175 (C. C. A. 9).

If we treat the blanks as unpatented articles of commerce not subject to the rule of contributory infringement, then the Government's position is directly contra to the rule that a patentee may not control unpatented elements which may be later incorporated into a patented combination. See *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27; *Leitch Mfg. Co. v. The Barber Co.*, 302 U. S. 458, etc.

Univis lenses are more difficult to make than other lenses when it comes to grinding the blanks, designing them and fitting because of the flat tops of the inserts. Extreme accuracy and great skill are necessary to precisely grind the lenses so as to bring these flat tops into precise horizontal position. A slip of a fraction of a millimeter will ruin the lens entirely because the tilting of the flat top will result in prismatic jump, that is, the prism resulting will cause the object viewed to be displaced. A Government witness said:

"Well, the first and principal difficulty in that is that in grinding your cylinder for your astigmatic correction that is always apt to, that is the operator in working with it is apt to shift that, well, I might say a 64th of an inch in grinding and when we go to cutting that up the main essential part of a lens is, of course, to see that the axis is correct, and so if you get your axis correct, if that has not been ground precisely in relation to the flat top, your top will slant when you cut it off. For instance, if it is supposed to be 180, and it comes out 178, we must have it 180, and if we shift that down so the top of the segment will not be straight that makes an unsightly looking job and it gets into the patient's line of vision and the result is we have to be extremely careful to see that our tools are in absolute condition and the machines in perfect shape so those things will not happen." (R. 182-3.)

It is for this reason that the Univis Lens Company has had to use particular care in connection with the manufacturing instructions and requirements on the part of its licensees. The difficulty in grinding, etc., has presented such problems that the Univis Corporation and the Univis Lens Company have found it necessary to have special instructions by the representatives of the licensees, necessary to furnish special tools to the licensees, and necessary to furnish instruction charts in order to guide the licensees as to the curvatures to be ground. (R. 183, 77, 78.)

A. The Validity Of The Patents Of Appellees Is Not Challenged: The Ownership Of Trademark "Univis" Is Not Challenged.

Government counsel conceded at the trial that "the Government is not attacking in any way whatsoever the validity of any of the patents." (R. 177 F. II, R. 670.) Likewise the title of the patents and the title to the trademarks "Univis" and "Universal Visibility" were conceded by the Government to the Appellees. (R. 676, F. X.)

The scope of the patents in question is inferentially sought to be limited in the Brief of the Government now by claiming that they are merely "improvement patents." But even if this is true it is not disputed that a patentee is entitled to the full reward for his patented invention whether it is an "improvement patent" or a basic one. This Court is fully cognizant of the fact that it is ~~an~~ frequently only through an improvement patent that an original idea is made commercially practicable or marketable.

VI. THE UNIVIS LICENSE CONTRACTS.

The Univis license policy is carried out first by a license direct from The Univis Corporation to The Univis Lens Company, Inc., under the terms of which The Univis Corporation conducts the sales promotion work for the promotion of the sales of the completed lenses and to estab-

lish an approved list of purchasers, and, in turn, The Univis Lens Company, Inc., has the right to manufacture the lenses, but to sell them only to those customers approved by The Univis Corporation and to no others. (See Pltf's Ex. 3, R. 203.) **It is, therefore, not a full unlimited license to manufacture, use and sell.** Second, The Univis Corporation grants further limited licenses to "wholesale distributor licensees" (Pltf's Ex. 4, R. 207) and "retail finishing licensees" (Pltf's Ex. 6, R. 211) and finally "prescription and fitting licensees." (Pltf's Ex. 9, R. 214.) It is these three classes of licensees made necessary by the established agencies in this trade who constitute the approved list to whom the blanks or lenses may be sold by the respective licensees with, of course, the understanding that the finally completed lenses may be sold by the licensees to any customer desiring the same at the minimum price stipulated.

The Univis Corporation has licensed three manufacturers of lens blanks: The Univis Lens Company (Exhibit 2, R. 200); The American Optical Company (Exhibit 3, R. 203); Shuron Optical Company (Exhibit 1, R. 73). This latest contract of Shuron is now in litigation.¹

The blank making contract of Univis Lens requires the payment of a royalty of fifty cents and the sale of blanks to the Licensees of The Univis Corporation. We do not understand that there is any particular attack made upon this contract and no detailed discussion of its provisions is necessary. The Univis Corporation licenses three other classes of licensees: the wholesaler-grinder designated as a distributor; a finishing licensee who is a grinder; and the prescription licensee who may or may not do limited grinding and who like the finishing licensee may or may not prescribe, design and fits the lenses. The retail

¹ *Univis Corporation and United Kingdom Optical Company v. Shuron Optical Company*, Civil Action No. 909, United States District Court Southern District of Ohio Western Division.

finishing licensee or the prescription licensee makes the first and only sale of a completed lens under the patents to the public and thereby places the lenses in the channels of commerce and outside of any further control of the patents.

A. The Distributor License Agreement.

This is a "non-exclusive, non-assignable, revocable right to complete the manufacture of Univis bifocal lenses from rough lens blanks." It authorizes the transfer of a restricted interest in the lenses to the prescription licensee who orders such lenses from the distributor wholly or partially ground according to the prescription and design instructions that he transmits after his examination of the patient. The contract says that the distributor is authorized to sell "Univis bifocal lenses made from said blanks only in accordance with the terms and conditions set forth herein." Such conditions are the sale to designated licensees at a stipulated price and the sale shall "only be sold under the name Univis." The distributor "agrees to employ good material and workmanship in completing the manufacture of Univis bifocal lenses and conduct the business honorably and skillfully so as to endeavor to make and maintain the reputation for the lenses." The patents under which the license is granted are, of course, listed. It is stated that the purpose of the contract is for "maintaining said quality in the finish and final delivery of the Univis bifocal lenses which are the subject matter hereof to the ultimate purchaser and wearer." There must be a very close working partnership between the distributor-grinder and the prescription licensee because together they must do what the retail finishing licensee does in one establishment, that is, prescribe or handle a prescription, design by adapting the prescription to the wearer and grind, thereafter inspecting, checking, adjusting and fitting to the wearer. These two agencies, the distributor and the prescription licensee, acting as a unit, or the equivalent retail

finishing licensee, bridge the gap between the needs of the patient and the rough blank to produce the first sale of the completed lens for the first commercial purchaser, the patient.

The wholesale licensee is a restricted licensee only licensed to pass a limited title to ground blanks to the optician or optometrist who is to complete the passage of title by final first sale of the completely finished lens to the ultimate patient. It will be understood that the **only thing** that the optician or optometrist (prescription licensee) is selling is this single pair of *finished eyeglass lenses*. After he performs the various steps of designing, he either makes these lenses by grinding the blanks or so-called "finishing" of them, or has them ground or finished by some other grinder for his account. Whether he does the grinding himself or has someone else do so, wholly or partly, makes no difference in the finished lens. **The only sale that takes place of the finished lens is this single sale by the optician to the patient.** This is the first and final release of the completed article into the channels of commerce. (R. 190, 661.) The wholesaler, who is only a grinder, does not sell lenses to the patient. He is not licensed to do so. He only manufactures partly, the lenses for the prescription licensee's account. The prescription licensee may or may not mount them, but always must again adjust and fit the completed lenses to the wearer to see that both the optical conditions of the prescription and his design specifications check, so that the lenses do actually satisfy the wearer. The Government makes some point that all that is done is to take a pair of tweezers and adjust the frames. If this is necessary, it is, of course, a part of the manufacturing operation, but is only a very small part. The ultimate fact is the designing as well as the final fitting must be properly carried out, all of which is a fundamental part of the manufacturing, which is the only thing that is important. (R. 85, 88, 90, 106.) Under such circumstances,

there is only the one sale of the completed eyeglass lenses that is made by the finishing licensee or prescription licensee. (R. 190.)

This finished eyeglass lens, as hereinafter pointed out, is the final article of manufacture **called for by each claim of each patent.** *It is not until this finished eyeglass lens is completed that the article of the patent is also completed and it is not until this completed article is sold that the patent monopoly is exhausted.* This is necessary because of this stage manufacturing.

B. The Prescription Licensee Agreement.

Now turning to the other half of this restricted license of the distributor licensee the following are the provisions of the prescription licensee who receives the lenses made for his account by the distributor, wholly or partly. The prescription licensee is licensed "to use and/or prescribe and fit genuine 'Univis' lenses" at a stipulated price and he is further restricted that he "will only prescribe and fit 'Univis' as finished lenses to wearer on the prescription of refractionists, his own refractions and neutralizations, and that no lenses will be prescribed and fit except to the above mentioned patients with whom the representative exclusively and directly transacts his business." The reason for this latter provision is to insure the function of the prescription licensee of prescription and design directly with the person who is to wear the lenses because the grinding by the distributor for the prescription and design of the prescription licensee as the result of the prescription licensee's work before grinding and the prescription licensee's work after he receives the ground lenses in completing the work with the patient is a single transaction, every step of which must be conducted for the benefit of a single patient. It is not until that patient is satisfied that this single transaction is completed and the first sale of a completed lens is made by the distributor-prescription licensee team.

C. The Finishing Licensee Agreement.

All that we have stated as to this teamwork is performed under the finishing licensee agreement by a finishing licensee who combines in one establishment technical skill and grinding and manufacturing facilities and the facilities for writing prescriptions or designing or both. Under the finishing license the licensee is licensed for the purpose of "completing the manufacture thereof according to suitable prescriptions for the use of the purchaser who will wear the resulting bifocal eyeglass lenses." This limited license enables the licensee "to complete the manufacture of Univis bifocal lenses from rough lens blanks purchased only from the authorized manufacturing licensees" under patents at stipulated prices. The finishing licensee is restricted to selling only finished lenses "to the wearer on a prescription of refractionists, his own refractions and neutralizations, and that no lenses will be sold except to the above-mentioned patients with whom the 'Finishing Licensee' exclusively and directly transacts his business." This is the same provision as in the prescription license. The finishing licensee is limited, as the distributor is limited, to employing good material and workmanship and conduct the business honorably and skillfully so as to "endeavor to make and maintain the reputation of the lenses."

Each of these contracts is a restricted license carefully designed to enable the licensee and the licensor to enjoy the benefits of the patents and insure that the patient gets direct personal treatment and exactly the best lenses that can be given. These reasonable restrictions as to maintaining quality of manufacture, prescription and design, the marking of the lenses at each stage with the trademark, "Univis" to identify them, and the restricting of the purchase of blanks and the grinding of blanks to authorized sources and the restriction of the prescription or finishing licensee to selling lenses only to patients with whom he directly deals and on whom he has exerted his

technical skill in prescribing and designing are directed to the purpose of insuring a continuing expanding business by rendering a genuine public service. Please keep in mind that at each stage of the licenses the control of the blank or lens in different stages of completion in the necessary stage of manufacturing operations is retained and the rights to the subject matter are limited under the licenses as restricted licenses because otherwise it would release the subject matter without control with resulting disaster to the quality. Every step of these licenses, if a patient could come into a factory, could be completed in one place, but because of the peculiar nature of the subject matter the quantity manufacture of blanks to keep down the cost is performed at a central factory and the custom work of fitting the individual must be done in the individual's own community conveniently close to him.

VII. FAIR TRADE CONTRACTS.

The Univis Lens Company, as the manufacturer and owner of the trademark "Unvis," adopted Fair Trade Contracts to protect its good will. The action of 40 State Legislatures provided remedies and advantages under Fair Trade Contracts additional to anything available to it under the patent laws. Its reason is best stated in the language of Mr. Justice Sutherland in *Old Dearborn Distributing v. Seagram-Distillers*, 299 U. S. 183, that:

"The primary aim of the law is to protect the property—namely, the good will—of the producer, which he still owns. The price restriction is adopted as an appropriate means to that perfectly legitimate end, and not as an end in itself." (p. 193.)

Congress has approved the economic wisdom of such acts by exempting the operation of the Sherman-Anti-Trust Laws through the Miller-Tydings Act Amendment.

There is no charge that Univis has conspired with competitors to fix resale prices and the Court has so found. Likewise, there is no charge of any horizontal fixing of re-

sale prices but only the vertical prices permitted by law. This vital fact should be kept in mind, as the principal charge of the Government is that these Fair Trade Contracts are invalid because they are part of an unlawful conspiracy, but the District Court found no conspiracy. (R. 677, Finding XIII.) It only found that one license contract went beyond the patents in its control. (R. 679, Finding XII.)

The provisions of the Fair Trade Contracts are for the purpose of protecting the good will. In addition to the price provision approved by this Court, there is requirement for marking the lenses with the trademark "Univis" (Sec. II); a provision for grinding the lenses to the specifications and instructions of Univis to preserve the quality (Sec. IV); a provision for technical services and instructions by the manufacturer to aid the wholesaler in his manufacturing operations, and Section V deals with the details of the price; and the remainder of the provisions have to do with the termination of the contract. The finishing retailer contract and the prescription retailer contract are substantially the same.

The Univis Lens Company is the owner of the trademark "Univis." (R. 676, Finding X.) There have been offered in evidence two certificates of trademark registration to the lens company. "The first trademark No. 235,817, covers the 'Univis' and recites that the mark has been continuously used for ophthalmic lenses and applied to said goods in applicant's business since January 20, 1927 * * * the Government has not challenged the ownership of the trademark "Univis." (Finding X, R. 676.) The District Court further found that the retailer "does sell such finished lenses made from blanks of the producers, and he does sell such finished lenses under the trademark 'Univis' owned by the Univis Lens Company, the producer of the blanks."

The blank is sold by the Univis Lens Company in a carton marked with the trademark "Univis." (R. 196,

Deft's Ex. G.) The trademarks themselves Nos. 235,817 and 250,138, are contained in Exhibit F. (R. 196.) A certificate of guarantee from the Univis Lens Company is also delivered with the lenses when sold to the customer. This contains the name and guarantee of the Univis Lens Company, or the prescription licensee, when the sale is made of the completed lenses to the patient.

The trademark "Univis" so owned by the Univis Lens Company is applied to its products to indicate origin at various stages of the conversion of the blank into its only useful end product, the lens. The Fair Trade Contracts are between the Univis Lens Company, as the manufacturer of the physical thing, known as the blank, which ultimately becomes the finished lens and those who help make and sell it in final lens form in the ordinary channels of distribution. The three Fair Trade Contracts with the wholesaler (Ex. 10, R. 217), finishing retailer (Ex. 12, R. 224), and prescription retailer (Ex. 13, R. 228), are in behalf of the Univis Lens Company, the owner of the trademark "Univis" on lenses, as these contracting parties agreed to do the manufacturing under this trademark. The trademark is applied to both the blank by placing the blank in a small individual paper carton carrying the trademark "Univis," and the lens itself, when ground, is identified by the trademark "Univis" in connection with the guarantee as it is delivered by the prescription licensee or finishing licensee to the patient. As finally delivered, the lenses are mounted in a frame and cannot, of course, be placed in a carton as in the case of a blank carrying the trademark "Univis." The lower Court has found that the sale is made by the retailer licensee under the trademark "Univis." (R. 675, 676.)

There is no other practical way with merchandise of this character of associating the trademark with the same article both in its unfinished form and its finished form; and by this only practicable procedure, the objective of the

Miller-Tydings Act, of trademark identification, is admittedly carried out.

VIII. THE TITMUS ISOLATED INCIDENT.

We leave a brief statement of the facts, to avoid repetition as to this isolated incident, for the argument. The Court in its opinion disposed of the matter thus:

"There is an isolated instance wherein * * * the defendants departed from the protection of their patents * * * it may be doubted whether the proof is of sufficient weight to justify the conclusion that in and of itself it amounts to a violation of the Anti-Trust Acts. It must also be observed that there is no proof that the defendants exercised among themselves or by combination with others, a control of all bifocal eyeglass lenses." (R. 667-668.)

IX. SUMMARY OF THE ARGUMENT.

- I. The patents of the Univis Corporation cover the completed lens. Its license system exercises no control after the lens is sold.
- II. The wholesaler-grinder under his license only conveys a restricted property to a prescription licensee for a given patient. There is only one transaction and one sale.
- III. Restrictive clauses in patent license agreements are legal, such as, who are to be licensed, the price, and similar matters.
- IV. The activities of the Univis licensees, if not licensed, would be an infringement of the lens patents, and are, therefore, controllable under license.
- V. There has been no illegal restraint of trade in fact within or without the license system.
- VI. The Titmus incident was an isolated one and amounted to no more than the exercise of the legal right of a patentee and his licensees to stop infringement of patents.
- VII. The fair trade contracts are legal because they protect the good will of the trademark "Univis" and

enable the manufacturer of the blank which owns the trademark that is applied both to the blanks and lenses in practice to control the conditions of sale of the trademarked article.

VIII. None of the appellees was subject to the jurisdiction of the District Court because not found within that district or doing business therein.

X. ARGUMENT.

I. The Patents of the Univis Corporation Cover the Completed Lens. The License System Exercises No Control After the Completed Lens is First Sold.

Univis licenses do not extend the control under the patents beyond what a patentee would normally do in his own factory in the making and selling at a stipulated price of a completed lens. Necessity forces this branch manufacturing in many communities; and Univis, instead of resorting to wholly owned distributors and retailers, has elected to promote free competition by sharing its patents with its licensee agents everywhere in an open end license policy and thus selling direct to the consumer.¹ You will find that these licenses do no more than that which is customary for any manufacturer to do in making a patented article in his own plant and selling it at his own price. The license system gives the patent benefits in various fields of endeavor. *General Pictures Co. v. Western Electric Co.*, 305 U. S. 124, 127.

Appellees' licenses do not control competitors: they merely enlarge the field of competition and increase that competition by opening the patents to the widest use.

Appellees' patent monopoly is not exhausted until the first sale of the completed lens to the patient by the finishing

¹ "The owner of an article, patented or otherwise, is not violating the common law, or the Anti-Trust law, by seeking to dispose of his article directly to the consumer and fixing the price by which his agents transfer the title from him directly to such consumer." *U. S. v. General Electric*, 272 U. S. 476, 488.

or prescription licensee. The Government admits on Page 42 of its brief that under the Univis license system **"the licensees perform the final operation necessary to make the patented product available to the public."** Until that occurs the patentee has a right to establish those necessary restrictions to ensure the quality of the product and the resulting profit due to repeat sales by satisfying the public as he would do in his own manufacturing plant. *Mitchell v. Hawley*, 83 U. S. 548-550; *Bement v. National Harrow*, 186 U. S. 70; *Paper Bag Patent Case*, 210 U. S. 405-429; *United States v. United Shoe*, 247 U. S. 32-57; *United States v. General Electric*, 272 U. S. 476; *Standard Oil v. United States*, 283 U. S. 163-179; *General Talking Pictures v. Western Electric*, 305 U. S. 124; *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436-456.

When does this first sale of the completed lens take place?¹ These patents call for lenses and when the lens is sold as defined by the patent and its claims, the monopoly is exhausted. In *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436, 456:

"The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent. *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, 510."

The District Court upheld the manufacturing of the blank under license and the manufacture of the completed lens from the blank by the finishing licensee, who combines in one establishment, the designing of the lens, either from his own prescription or that of another, the grinding of

¹ For the purpose of this argument, we may consider there is only a single lens patent because only one patent of the appellees covers each type of lens. Type B lens is covered by Watson-Culver patent No. 1,632,208 (R. 497-8); Type D lens is covered by Stanley patent No. 1,899,777 (R. 525-8); Trifocal lens is covered by Reissue Patent to Hancock No. 19,142 (R. 555-7); Type R lens is covered by Stanley patent No. 1,845,940. (R. 507-9.)

the lens and the final fitting of the lens to the patient. At that point the District Court found the first and only sale of the completed lens to the public, in satisfaction of the patent on lenses, was effected. In the case of the prescription licensee, the work is done in two places: the optometrist, who is a prescription licensee, examines the patient, writes a prescription and works out the design of the lens; he then sends the prescription and design instructions to the wholesaler-grinder, who grinds the lenses wholly or in part for this particular patient, as a part of a single transaction, and then returns these lenses, whereupon the optometrist proceeds to complete the lenses by finishing them and adjusting and fitting them to the patient (and sometimes does some grinding on them), whereupon the first sale is made to the patient. The District Court, overlooking the unity of the transaction, believed the first sale, in this instance, took place when the glasses were transferred on a restricted basis by the wholesaler-grinder to the prescription licensee before delivery to the patient. In practical effect, it is all one transaction, whether conducted in one shop by the finishing licensee or in two shops by the combination of the wholesaler-grinder and the prescription licensee. In both cases the first sale of the completed lens is made only to the patient. The licenses show that the transfer of title is on a restrictive basis until the lens is so complete that it can be sold to a particular patient. (See Section 2—Distributor's License—R. 207, Ex. 4.) There can be no sale by the wholesaler-grinder direct to a patient because his authority, under the license, is limited to merely transferring a lens that is not yet satisfactorily determined to be what the patient needed. The wholesaler could only convey the physical property with limitations on its use. There is no right in law for an outright sale by the wholesaler under his restrictive license. *Mitchell v. Hawley*, 83 U. S. 544, 550; *United States v. General Electric*, 272 U. S. 476; *General Pictures Co. v. Western Electric*, 305 U. S. 124.

Likewise there is a restrictive license to the finishing and prescription licensees who are similarly limited, the essence of whose contract is that he will only sell the Univis lenses as finished lenses "to the wearer on a prescription of a refractionist, his own refractions and neutralizations, and that no lenses will be sold except to the above mentioned patients with whom the 'finishing licensee' exclusively directs and transacts his business." The cardinal distinction between the licenses in the case at bar and that in *Adams v. Burke*, 17 Wall. 453, cited by the Government, is that in the *Adams v. Burke* case there was an unrestricted and outright sale in a particular territory. That case, therefore, has no applicability here.

The Government claims that when the blank is made, the lens patents are satisfied. A blank is not a lens because it cannot be used for optical purposes, and it has no commercial value except for the purpose of later, with additional manufacturing, being brought into lens form. The District Court so found. (R. 672, 673; Finding VI.) The Government's Bill (paragraphs 3 and 9) defines the lens as the usable article for vision purposes, saying that the Univis lens refers to a type of bifocal lens "incorporating features claimed by certain patents controlled by defendant Univis Corporation." (R. 5.) The patents on lenses, in their title, in the description and in the claims, are limited to lenses. The making of the blank is only one of the operations leading up to the completion of the patented product known as the lens. The District Court so found. (R. 672, 673; Finding VI.) The Government, now, realizing the weakness of its position, which is flatly contrary to the plain wording of the patents, in parts of its brief abandons this position, saying that while all manufacturing operations under the lens patents have not been completed by the making of the blank, and the patents do call for lenses, yet, where a patentee secures a royalty on the blank, that his monopoly is exhausted. This completely ignores the practical consideration that the royalty is only

one element in the compensation of the patentee. How much royalty the patentee receives is determined primarily by the customer good will and satisfaction with the patented lenses. In order to ensure that the royalty will flow from repeated sales to satisfied purchasers of the patented lenses, it is necessary for the patentee to control the subsequent making of the blanks into lenses which his patent calls for. If this is not done, the mere fixing of a royalty on a blank would be meaningless, and no profit of consequence would flow from the patented lenses because the royalty rate must be multiplied by sales of lenses resulting almost wholly from the **quality and skill of the work** of the finishing and prescription licensees.

Until the lenses are completed and sold to the first customer, they are not discharged from the monopoly of the lens patents. Until then, the issue of the Anti-Trust Laws does not arise. "The Anti-Trust Laws did not embrace or include contracts entered into in the legitimate exercise of rights conferred under the patent laws." *Walker on Patents*, Deller Edition, Sec. 399, Vol. II, page 1545. *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436-456. On page 29 of the Government brief it is said that the Univis system makes impossible free and open competition. This Court has frequently announced that you cannot expect free and open competition in patented products. The very nature of the patent system is against it. *Paper Bag Patent Case*, 210 U. S. 405, 429; *Bement v. National Harrow Co.*, 186 U. S. 70; *United States v. United Shoe*, 247 U. S. 32. But this is in the public interest in the present case where the patents are used to promote competition rather than hinder it. The critical question, therefore, is where the first sale of the completed lens took place.

Such a sale takes place either by the prescription licensee or by the finishing licensee. The only difference between the finishing licensee whose license the District Court held was valid, and the prescription licensee, whose license was held invalid, is that the former does all of the

grinding as well as the designing, prescribing and fitting, while the latter in some instances does no grinding, and in other instances only a part of the grinding, but performs all the rest of the manufacturing operations of designing, fitting, etc., and has the grinding done for him by some agent, such as a wholesale grinder. We submit there is no difference in substance whether the manufacturing work is done wholly by the licensee in his own establishment, or a part of it is done for him elsewhere for his account, so long as there is only one sale by him of the completed lens to the ultimate customer.

Whether the prescription licensee orders from a distributor and then sells to his patient or whether the patient goes to a finishing licensee the result is the same: **a single transaction and a single first sale of the lens.** As proof of this, is the fact that the prescription licensee does not order a group of lenses and then resell them to customers out of stock which would be a true resale.

Obviously, the sale of blanks by a Univis distributor-grinder to unauthorized persons, or the manufacture and sale of blanks by a non-licensee, would constitute contributory infringement by reason of the sale of a product which is not an article of commerce but one especially designed for ultimately being used to make the Univis lens, and for that purpose only. This would be contributory infringement under the familiar doctrine of *Leeds & Catlin v. Victor Talking Machine*, 213 U. S. 325, 332-3, where the Court said:

"A combination is a composition of elements, some of which may be old and others new, or all old or all new. It is, however, the combination that is the invention, and is as much a unit in contemplation of law as a single or non-composite instrument. Whoever uses it without permission is an infringer of it. **Whoever contributes to such use is an infringer of it.**"

This case is still good law; *Carbice v. American Patents* case, 283 U. S. 27.

A careful examination of all of the decisions in which restrictions under patent licenses have been disapproved under the Sherman Act will reveal as the fundamental basis of these decisions that a conspiracy, contract or combination was found to exist, the essence of which was the creation of a monopoly or an interference with competition, outside of the patent, under the provisions of which others were excluded from or restrained in a business *that otherwise would be open to them freely*. This is not the case with patents. This Court has long recognized that as to a patented article the law creates a specific character of monopoly which confers the right upon the patent owner to exclude any others from making, using or vending the patented thing or permitting by licenses the manufacture, use or sale of the patented thing under such terms as may be imposed upon the licensee as to his own making, using and selling within the terms of the patent. All that the Courts have condemned is an attempt by patent owners to extend the exclusive rights of the patentee granted under the patent law *beyond* the boundaries of the patent itself.

The Government relies mainly upon the case of *Ethyl Gasoline Corp. et al. v. United States*, 309 U. S. 436 (1940). A careful examination of the facts of that case and the decision of this Court based thereon clearly distinguishes it from the facts of the case at bar as being any authority sustaining the position of the Government here. To the contrary, it sustains our position. In that case, the first two patents covered the fluid. An attempt was made to use the first two patents to perpetuate the monopoly in connection with the third patent upon mixing the fuel with the gasoline and with the fourth patent for using the fuel in a combustion motor. No such practice is utilized here as only a single lens patent is involved with any one type of lens.

In the *Ethyl* case the patent owner actually manufactured and sold the completed patented fluid to the oil refiners and **granted them licenses to manufacture, sell**

and distribute the patented fluid to other refiners and to jobbers licensed by the patent owner. Unrestricted title to a complete patent article was passed. The patented fluid was complete and needed no more treatment to make it finally meet the claims of the patent. The second set of licenses was to these selected jobbers and these licenses to the jobbers placed upon the jobbers many restrictions not necessary to go into here in detail in handling and selling the patented treated gasoline which the refiners were authorized to make and sell to the jobbers. We say it is not necessary to go into these restrictions placed upon the jobbers, *because this Court found that the licenses to the refiners authorizing them to sell the patented fluid released that article from the patent monopoly and the attempt to regulate what the jobber did with this article thus released from the patent monopoly was outside of and beyond the patent monopoly.* The patent owner did not establish directly a resale price for the jobbers but this was left to the refiners to do. (309 U. S. 436, 459.)

“Such benefits as result from control over the marketing of the treated fuel by the jobbers accrue primarily to the refiners and indirectly to appellant, only in the enjoyment of its monopoly of the fluid secured *under another patent.* The licensing conditions are thus not used as a means of stimulating the commercial development and financial returns *of the patented invention which is licensed,* but for the commercial development of the business of the refiners and the exploitation of a second patent monopoly not embraced in the first.” (p. 459.)

There was no attack in the *Ethyl Gasoline* case upon the licenses to the refiners as such, the gravamen of the complaint in that case being that the licenses to the refiners *released* the patented article from the patent monopoly when those licensed refiners under their license made and sold the complete patented fluid that satisfied the patent; and, therefore, the licenses to the jobbers with their

restrictions pertain to a resale of the completed patented fluid, after it had been released from the patent monopoly.

"The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent. *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, 510." (p. 456.)

This Court held that "By its sale to refiners it relinquishes its exclusive right to use the patented fluid; and it relinquishes to the licensed jobbers its exclusive rights to sell the lead-treated fuel by permitting the licensed refiners to manufacture and sell the fuel to them." (309 U. S. 457.)

The substance of this Court's decision in that case was, first, that by the authorized sale of the fuel by refiners to jobbers "the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold" (p. 457) and, second, that "The licensing conditions are thus *not* used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business of the refiners and the exploitation of a second patent monopoly not embraced in the first." (p. 459.)

In the *Univis* case the manufacturing is not completed by the initial manufacturer of blanks for that is not the final patented product, i.e. a lens. In the *Univis* case the manufacturing has to be done by stages because each article manufactured is not completed as a lens until it is finally adjusted and fitted to the face of the patient and not released from the patent monopoly until that is accomplished. Each *Univis* licensee is a restricted licensee and with the exception of the last licensee cannot pass complete title or make an outright sale—only a qualified title can pass. Such restrictions do not enlarge the monopoly: they restrict it to a limited use and limited persons to enable the patentee to get his reward. This Court held:

"He may grant licenses to make, use, or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." (309 U. S. 436, 456.)

In the case at bar the licensing condition is just the reverse of the *Ethyl* case, to-wit, it is one "*used as a means of stimulating the commercial development and financial returns of the patented invention.*" The article here which embraces both the unfinished "blank" and the finished lens is not released from the dominion of the patent until the unfinished "blank" is completed as a lens. There is no attempt in the license to further control the price of this completed patented article—the lens itself—after it is released from the dominion of the patent.

In the event a wholesale distributor licensee sells the uncompleted "blank" to an unauthorized purchaser and that unauthorized purchaser undertakes to do further manufacturing on this "blank" in order to make it a usable article and a "Univis lens" and sells it as such, the unauthorized purchaser would undoubtedly be a contributory infringer, liable as such.¹ Therefore, the "blank" is sold under the dominion of the patent under a restricted license until further manufacturing steps are taken with regard to it and it is converted into a completed lens and sold as such, and as long as this condition prevails it is not a practical usable article of commerce in which anyone could deal as a lens without the license of the owner of the patent. Anyone purchasing this unfinished "blank" from a licensed wholesale distributor and doing further manufacturing process or work on it, as would be necessary to make it a usable finished lens, without license from the patent owner,

¹ See *Univis, et al. v. Benedict*, Ex. M, R. 558 and *Univis, et al. v. Morgan*, U. S. D. C. W. D. Mo., Ex. B, R. 64 (unreported).

The Univis Corporation, would be a contributing infringer. A license is an agreement not to sue for infringement during the term of the license period and in thus agreeing not to sue for infringement by the granting of a license, The Univis Corporation can lawfully exact the condition from the retail licensee who purchases the "blank" from the wholesale distributor to do this additional manufacturing work and not sell the result at less than the minimum price stipulated and then with a limited title to a special class of persons.

The Government asserts that the facts in the present case are identical with those in the *Ethyl* case. **On the contrary, in this case the owner of the patents neither manufactures nor sells the product covered by the patents. Neither does the distributor or finishing retailer in the case at bar resell the patented article which is the finished lens.** Under their licenses here the sales made by the prescription licensee or the finishing retailer of the completed article are the first sales made of the patented article which for the first time releases it from the patent monopoly and after such sales there is nothing in the Univis licenses undertaking to further restrict the article subsequent to this release from the patent monopoly. There is no attempt to use one patent to help maintain a monopoly of another as in the *Ethyl* case.

A true test of whether the appellees here, by the licenses involved, are attempting to unlawfully extend the patent monopoly is to determine what the situation would be if the present retail finishing and prescription licensees of The Univis Corporation had no licenses and undertook to make or sell the Univis patented lenses. Such conduct of finishing the lenses by a retailer, whether in his own plant or that of a distributor, and the sale of the lens, would constitute infringement of the lens patents. The Univis licenses do not extend the patent monopoly beyond the bounds of the statutory grant: they only control that which lies within it.

The profit of the licensor, Univis Corporation, is the royalty of fifty cents per blank. To the contrary "Appellant" (Ethyl) neither owns nor sells the patented fuel nor derives any profit through royalties or otherwise from its sale." *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436, 459.

We stand on the ~~proposition~~ proposition that unlawful makers of lenses from blanks would be such infringers under the conditions existing in the case at bar, *in contrast to the Ethyl jobbers who would not be infringers under the facts of the Ethyl case where the monopoly over patented fluid was already exhausted.*

In the *Ethyl* case this Court held that when the Ethyl Corporation granted its licenses to the refiners to make, use and sell the lead-treated gasoline under three of its patents and the refiners proceeded to so make and sell the gasoline containing the patented fluid under the main patent, that product was released from the monopoly of the patents and became an ordinary article in the usual channels of trade and commerce at the time of its first sale with no right on the part of the refiners or the patent owner to impose restrictions, whether as to price or otherwise, for its resale by the jobbers. It could not be remonopolized by second or third patents in mixing fluid with gasoline.

"By its sales to refiners it relinquishes its exclusive right to use the patented fluid; and it relinquishes to the licensed jobbers its exclusive rights to sell the lead-treated fuel by permitting its licensed refiners to manufacture and sell the fuel to them. And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold." (p. 457.)

That this Court did not question the right of a patentee to sell to price cutters is shown by the statement of the Court as follows:

"The picture here revealed is not that of a patentee exercising its right to refuse to sell or to permit his li-

licensee to sell the patented products to price cutters. Compare *United States v. Colgate & Co.*, 250 U. S. 300 with *United States v. A. Schroeder's Son*, 252 U. S. 85. A very different scene is depicted by the record." (p. 457.)

In the case at bar the exact same "scene is depicted" and all The Univis Corporation is undertaking to do is to exercise "its right to refuse to sell or to permit his (its) licensee to sell the patented product to price cutters" or to others disapproved by The Univis Corporation.

In the *Ethyl* case the jobber did absolutely nothing as to the mixing of the fluid with the gasoline or in any way contributing to the making of the patented product. All he did was to **resell** the completed and finished patented product after the right to exclude others from selling it has been released by the Ethyl Corporation and the refiners have made and sold it to the jobber.

Thus in the *Ethyl* case the jobber *resold* the lead-treated gasoline concerning which he did not in any way participate in the making and which the refiner was authorized to sell to him by his license. Hence, he would have committed no act of infringement, even without any license.

But in the Univis instance if the retail finishing or prescription and fitting retailer were to undertake to participate in the manufacture of the completed lens in any way, as he must do in order to sell it; and if he has no license, he would be an infringer.

This exact question was decided in *Univis v. Benedict*, U. S. D. C. S. D. W. D. of Ohio (unreported, see R. 558), as to one of the patents which involved lenses where the Honorable Robert Nevin said:

"The patent in question was granted to Watson and Culver, on June 14, 1927, and is No. 1,632,208. According to the patent, the invention relates to lenses particularly those which are used with spectacles and the like. . . . The patent, and particularly the claims thereof, call for a 'fused bifocal lens' or a 'bifocal lens.'

It is apparent that the patent was intended to and does cover the finished article, ground and polished and ready to be used by the consumer or wearer. Lenses are first manufactured in the form of 'blanks' such as plaintiffs' Exhibit No. 1 in this case. The 'blank', however, is not in form to be used as an eyeglass lens. To be put in such condition, the 'blank' must be 'surfaced' and 'ground' to fit the eye of the patient or to make the lens comply with the prescription of the oculist who prescribes it. After this further manufacturing operation a lens may then take on the appearance of the lens marked Plaintiffs' Exhibit No. 2, in this case. It is absolutely essential that this further manufacturing process take place in order that the rough 'blank' may be transformed into the finished product. **The making of the 'blank' is but a step in the manufacture of the lens which the patent is meant to and does cover. The claims are broad enough to cover the 'blank' as well as the finished eyeglass or lens."**

The test of the government's position, that the making of the blank exhausts the patent monopoly in a lens patent, is whether such patented elements, existing in the rough in a blank, will be sold for the purpose of being made into a lens is infringement of the lens patents. This cannot be done because as stated in *Leeds & Catlin v. Talking Machine Company*, 213 U. S. 325, "patented elements of a patented combination may not be sold for use therewith" and "it was infringement to sell record discs substantially adapted therefor, to the users of a patented talking machine." This doctrine was reaffirmed in *Carbice Corporation v. American Patents*, 283 U. S. 27. This has been long the rule since *Cotton Tie Co. v. Simmons*, 106 U. S. 89, where a cotton tie band and buckle were once sold and the patentee's compensation given to him, yet, an attempt later to recombine the band and buckle was held to be an infringement for this putting together again of the elements to again bring about the combination, was infringement, just as the blank, if worked into a lens in infringement of the lens patents, would be an infringement.

Thus the true test of any violation of the Sherman law is whether the public is injured—that is, **whether they are deprived of something to which they have a right.** *Northern Securities Co. v. United States*, 193 U. S. 197, 24 Sup. Ct. 436, 48 L. Ed. 679. *Rubber Tire Wheel Co. v. Milwaukee Rubber*, 154 F. (358 (C. C. A. 7); cert. dismissed per stipulation, 210 U. S. 439. Applying this test to the facts of the case at bar, if the wholesale distributor, under its license, sells an incompleated “blank” the public is not injured by another license from the patent owner to the retail dealer limiting the price at which this retailer dealer can sell the incompleated “blank” which he finishes into a completed lens, because the public is not deprived of anything to which it had a right, since the public had no right to the further processing or manufacturing on the incompleated “blank” in order to convert it into an article of commerce as a completed lens. This was an exclusive right granted under the patent law to the owner of the patent, The Univis Corporation, in this instance; and in licensing the retail dealer to complete the manufacture and sell the completed lens the owner of the patent had the right to exact various conditions in the license.

Therefore, the fact remains in this case that The Univis Corporation does not sell and transfer the title of a completed article of manufacture or release the same from the dominion of the patent until the final finishing or prescription licensee performs the last stage of the invention:

II. The Supply by the Wholesaler-Grinder of a Ground or Partly Ground Lens Under a Restrictive License to a Prescription Licensee Does Not Release the Article From the Patent Monopoly.

The Appellees have followed the policy of licensing under the lens patents in the jobber and retailer fields so as to ensure the necessary performance of different parts of the patent monopoly. These are valid restrictive licenses.

limited to different fields. *General Pictures Company v. Electric Company*, 305 U. S. 124-127.

The purchase of a lens to the peculiar requirements of an individual patient starts a train of events in this license system that constitute a single transaction and a single sale of a lens. It is only when this single sale is finally made that the restrictive clauses of the license agreements are at an end because the monopoly has been satisfied: and the lens is complete as called for by the lens patent. "The patents cover the finished lens." (R. 673, Finding VI.) *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 456.

Let us look at what actually occurs. A patient comes into the establishment of a prescription licensee, either bringing his prescription, which has been prepared for him by an eye doctor, or he is examined by the prescription licensee and a prescription is prepared. Then the prescription licensee, an optometrist, in either event makes a careful examination of the patient to "design" the lenses to fit that particular patient's reading habits, occupation and facial characteristics and differences between the eyes of the patient. This entails the measurement of the vertical and lateral displacement of the eyes in the face with respect to the nose; the pupillary width between pupils, and numerous other similar factors.¹

¹ *Finding IX*. "This licensee is known as a 'representative' in the trade. The prescription licensee may be either an optometrist, oculist or eye physician or an optician who either refracts to write a prescription and designs or designs only and orders lenses so ground by a wholesaler. In some instances prescription licensee does edging, drilling, and mounting of the lenses. His patient either brings a prescription to him for glasses prescribed by an ophthalmologist or the 'representative' may refract the patient's eyes and write the prescription himself. In either event he also examines the patient and writes out a specification or 'design' instructions which he forwards with the prescription to a lens grinder who is a licensed wholesaler or finishing licensee who manufactures the completed lenses from blanks in his possession.

(Continued on next page)

Someone must now grind the lens according to the prescription and design instructions. Obviously, it makes no difference in this single transaction for this single customer whether this work is done, so long as it is correctly done, by a wholesaler-grinder licensee for the account of this patient and the prescription licensee, or whether it is done in the establishment of the retailer, as is the case with the finishing licensee, or in a central plant of a manufacturer. In many instances, at least a part of the grinding is done in the prescription licensee's establishment. (R. 674.) The point we wish to emphasize is that as a matter of practice and fact, everything for this single patient which is to terminate in a single sale of a completed pair of lenses **is but one transaction in which the prescription licensee and the distributor licensee participate under restrictive licenses to make up the completed lens.** The physical distribution of the work is immaterial. When this patient says for the first time "I accept these eyeglasses" this is the first complete satisfaction and embodiment of the patent claims and the first release from the restrictive licenses and patent monopoly into the channels of trade. This is the first time anyone has a right, if the patient wished to do so, to resell the lenses without restriction. Naturally, he would probably not do so, because the lenses

These 'design' instructions adapt the prescription glasses to the special eye conditions of the patient such as the size, shape, contour of the lens to conform with the patient's peculiar facial characteristics; and the prescription licensee designs the size, heights and positioning of the reading segment to conform to the patient's particular vocation and other personal habits and he has computed the angle of the lenses to give that vision, because while many prescriptions may be alike all 'design' instructions are substantially different due to the differences in individuals who may have the same eye defects to be cured by the prescription. The representative, optometrist, or his equivalent who is licensed, has his order filled and the lenses are delivered to him. He then again fits and adjusts as well as tests the lenses to see whether they are in accordance with the prescription and design instructions and also whether they actually fit and satisfy the patient. It is not until all of this work on the lenses is completed that the final sale of completed lenses is made to the ultimate user. (R. 674.)

would fit no one else. The whole procedure is a reasonable one necessary not only to the patentee's enjoyment of his rights but equally necessary to the patient's interest. This is hardly a conspiracy between these defendants to violate the anti-trust laws. The prescription license, therefore, is not an attempt to control the resale of the patented lenses for the sound reason of fact found by the Court below, that the lens has never been completed and put into the channels of commerce under the patent until the licensee makes his sale. (Finding IX, R. 675.) Until such completion of the lens, full and complete title never passed without such restrictions from the distributor to the prescription licensee, but only moved with this limited property right under the patent, because the lens was not finally made ready for release. It was only the sale to the patient for whom specially designed, that concluded the transaction—the first sale to the public into the channels of commerce of the finished and accepted lenses thereby releasing the monopoly of the patent, whether the sale was by the finishing or prescription licensee. As Mr. Justice Black said in *General Talking Pictures v. Electric Company*, 305 U. S. 124, 128:

“Almost a century ago, this Court asserted, and time after time thereafter it has reasserted, that *when an article described in a patent is sold and ‘passes to the hands of a purchaser, it is no longer within the limits of the monopoly.’*”

The charge by the distributor to the prescription licensee for his share of the work of grinding in his stage of the manufacture was not a sale because the distributor licensee has a restrictive license. *United States v. General Electric Co.*, 272 U. S. 476, 490:

“He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell.”

The Lens Company might well, as it does upon occasions when conditions permit, make the lens for the re-

tailer finishing or prescription licensee; and no one would deny that the licensor could specify the price at which such lens should be sold.

The distributor-grinder acts merely as the agent or employee for hire of the prescription licensee to do the mechanical work of grinding or partial grinding as one stage of the manufacturing process of which the final fitting and final sale of the prescription licensee to the patient are the final stages. No other sale of the complete lens for a particular patient is "made under the patents or the authority of their owner. R. S. Secs. 4884, and 4898 (35 U. S. C. Secs. 40 (and 47). *Moore v. Marsh*, 7 Wall. 515, 521. *Waterman v. Mackenzie*, 138 U. S. 252, 256. *Gardner v. Wilder*, 10 How. 477, 494. *United States v. General Electric Co.*, *supra*. *Robinson on Patents*, Secs. 762, 763, 792, 806, *et seq.*" *General Pictures Co. v. Western Electric Co.*, 304 U. S. 175, 181.

Where articles are under restrictive license, the licensees are mere agents for the patent owner; and the manufacturing work that they do on the subject matter is no different than if all the work should be done by the patent owner in his own plant and then sold to the patient. The patent owner may manufacture in his own plant or license others in various fields to do so. *General Pictures v. Western Electric Co.*, 305 U. S. 124, 127; *Ethyl Gasoline Co. v. United States*, 309 U. S. 436; *United States v. General Electric*, 272 U. S. 476-490. But that is not practical in this industry. In either event, the first and only sale of this completed article is when it is sold to the patient. It would seem immaterial, as a matter of law, whether the manufacturing is done by stages under the control of the patentee at different establishments or at one place. For instance, the Univis Lens Company sells a very small percent of its production of finished lenses for special prescriptions. (R. 666.) All the work of making the complete lens from blank to finished product is made in a single plant. The Government does not challenge its right to do

this. This is merging in one place that which necessity usually requires to be done in multiple places. *Appalachian Coals, Inc. et al. v. United States*, 288 U. S. 344, 376. But what difference does it make if the same steps are performed in multiple plants because practical trade necessities demand it? This the appellant has never been able to answer. This record shows that there is no restriction of production or sales, but to the contrary, a steady expansion constantly being pressed, and no attempt was made to limit production.¹ *Appalachian Coals, Inc. et al. v. United States*, 288 U. S. 344, 376.

In *Mitchell v. Hawley*, 16 Wall. (83 U. S.) 544 the Court said:

"Sales of the kind may be made by the patentee with or without conditions, as in other cases . . . as the instrument of conveyance from the patentee to him, which describes all the title he ever had, expressly stipulates that he shall not in any way or form dispose of, sell, or grant any license to use the said machines beyond the expiration of that term of the patent, and the form of the license which he gave to the purchasers shows conclusively that he understood that he was not empowered to give a license which should extend beyond that limitation." (pp. 548-550.)

In *General Pictures Co. v. Western Electric Co.*, 305 U. S. 124, 127; this Court said: "That a restrictive license is legal, seems clear."

The case of *United States v. General Electric Co.*, 272 U. S. 476, *supra*, establishes that:

" . . . Conveying less than title to the patent, or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is en-

¹ See page 17 for statement of steady expansion of the number of licensees.

titled to secure. It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future-control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's right. * * * But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell. The patentee may make and grant a license to another to make and use the patented articles but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them, he infringes the right of the patentee, and may be held for damages and enjoined. If the patentee goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." (pp. 489, 490.)

That announcement of the law by this Court fits the facts of the case at bar exactly and the conditions imposed in the license here in question do nothing more than provide the conditions of sale by the licensee which "are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." *United States v. General Electric*, 272 U. S. 476, 490. It is not believed that any case can be found to deny a patent owner the reward sought under the licensing system of The Univis Corporation, covering what otherwise would be the manufacturing in one plant and which extends only to the first sale to a patient-customer of the article claimed by the patents, i.e., a lens.

The restrictive license situation here is closely akin to that in *General Talking Pictures Corp. v. Western Electric*, 304 U. S. 175, 181; and 305 U. S. 124, 126, where this Court said:

"Any use beyond the valid terms of a license is, of course, an infringement of a patent." (305 U. S. 126.)

The Transformer Company in that case, just as the distributor finishing licensee in this case, was licensed for a limited use by legal restrictions in the license. The reward sought by The Univis Corporation, owner of the patents, was that reasonable one of insuring its future profits from the sale of lenses by requiring in its license that distributors only make lenses ready for final fitting to be delivered only to the prescription licensee and not to be released into the general channels of trade; and the prescription licensee be restricted to sales to those who are going to wear the lenses to insure the right patient secured the right lenses. Until this restrictive use by license is accomplished by the fulfillment of the final sale of such lenses to the patient, the lenses are still within the patents and have not been transferred out of the monopoly into the channels of trade. In short, the first sale of the finished lens and first release from the monopoly is the sale of the complete eyeglass lenses to the only person who gets full title—the wearer. As the Court below found: "It is not until all of this work on the lenses is completed that the final sale of completed lenses is made to the ultimate user." Finding IX, R. 675. Anyone acquiring such lenses other than the patient for whom they were made would be simply an infringer. Again as this Court said lately in *General Talking Pictures v. Western Electric*, *supra*:

"That a restrictive license is legal seems clear. *Mitchell v. Hawley*, 16 Wall. 544. As was said in *United States v. General Electric Co.*, 272 U. S. 476, 489, the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.' The restriction here imposed is of that character. The practice of granting licenses for a restricted use is an old one; see *Rubber Company v. Goodyear*, 9 Wall. 788, 799, 800; *Gamewell Fire-Alarm Telegraph Co. v. Brooklyn*, 14 F. 255. So far as ap-

pears, its legality has never been questioned." (305 U. S. p. 127.)

Certainly until this reasonable restriction of the Univis license for the protection both of the public and the patent owner of having the lens sold only to the wearer has been fulfilled by the prescription licensee or finishing licensee who deals with the patient, the lens is not released from the patent monopoly and no sale has taken place. This same distinction was made in the *General Talking Pictures Corp.* case, where this Court said:

"As the restriction was legal [the sale for a specified use]* and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to Transformer Company." (305 U. S. 127.)

So here the restricted license being legal, this Court will find "that while the devices embody the inventions of the patents in suit, they were not manufactured or sold 'under the patents' and 'did not pass into the hands of a purchaser in the ordinary channels of trade.'"

The District Court below upheld the restrictive licenses with the exception of the prescription license. His error was in the fact that because the prescription licensee's work was divided between two establishments—his own and that of the distributor-grinder that these made it different from the finishing licensee license, which he upheld, where all the work was done in one establishment. The patent control continued over the making of the blank and the making of the lens from the blank wherever and by whatever steps it was made, until the lens was sold to the patient, which was the final sale. Judge Nevin in *Univis v. Benedict*, and Judge Otis in *Univis v. Morgan*,¹ both so held.

Appellees have a right, through their license contracts, to control the quality of the blanks as parts used in their

* Our insertion.

¹ Exhibit M, R. 558; Exhibit B, R. 64.

patented lenses. This is an essential right for any manufacturer. *Pick v. General Motors*, 299 U. S. 3, 4; *International Business Machines Corp. v. United States*, 298 U. S. 131, 140.

III. Restrictive Clauses in Patent License Agreements are Legal.

If a patent license is valid, it may contain restrictions as to the persons to whom the property can be sold, the price, the conditions of its manufacture necessary for the production of quality goods and the customers to whom it should be sold. These restrictions will not be examined as to their reasonableness or the reasons for them. The patentee has the right not to make or sell at all. He may withhold the property without restriction because the public is securing something it would not otherwise have by reason of his invention. Therefore, any restrictions within the scope of this patent which he puts on its licensees are valid. This is particularly true where those restrictions, as in this case, are essential restrictions in order to accommodate the use of the patent to the conditions under which it must be manufactured and to insure the quality of the product so that the patentee can enjoy the benefit of the patent to the maximum extent. There is also the consideration that is close to the minds of all of us that such restrictions should be upheld when they advance the public interest and promote the sciences and the useful arts.

The licenses in this case grant a non-exclusive, non-assignable, revocable license. This has been approved traditionally for many years. *Waterman v. Mackenzie*, 138 U. S. 252; *Cotton Tie Co. v. Simmons*, 106 U. S. 89; *United States v. General Electric Co.*, 272 U. S. 476; *Carbice Corp. v. American Patents Corp.*, 283 U. S. 27; *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436; *Adams v. Burke*, 17 Wall. (84 U. S.) 453.

A patentee has the right of deciding to whom he will sell or not sell. His reasons or motives are not material. If he elects as a policy not to deal with price cutters in licensing his patented property or elects not to sell through licensees in environments that are not in keeping with the maintenance of the quality of his products as in chain stores, corner drug stores or from push carts, that is his privilege irrespective of his motives. Even the extent to which he licenses is not a matter in which he can be properly controlled.

Bement v. National Harrow Co., 186 U. S. 70;

Paper Bag Patent Case, 210 U. S. 405;

U. S. v. United Shoe Machinery, 247 U. S. 32;

U. S. v. General Electric Co., 272 U. S. 476;

Ethyl Gasoline Corp. et al. v. U. S., 309 U. S. 436.

The Government complains that the Appellees do not license everyone irrespective of their qualifications to make these lenses. Their position is that even though a person without qualifications or any experience or financial stability should wish to grind these lenses no matter how defectively and sell them, there is nothing that The Univis Corporation could do about it because it once released the blank for a royalty of fifty cents by its blank manufacturing licensee. It is obvious that such a course of action would ruin the reputation of the patented lens. The other alternative is of manufacturing such a lens wholly within a manufacturing plant. This is not feasible in this trade except in a very small fraction of one per cent. The unreasonableness of the position of the Appellant in this matter is demonstrated by the fact that such a course of action would not only deprive the patentee of the enjoyment of his patented property because that course of action would destroy it, but it is obvious that this difficult lens to make, would often be produced by inferior workmanship, unskilled labor and poor machinery, characteristic of the unqualified which certainly would not be in the public interest or that of the patentee.

Price cutting, particularly price cutting which results in unfair practices, has been condemned by this Court in *Bitterman v. L. & N. R. Co.*, 207 U. S. 205; *United States v. American Tobacco Company*, 220 U. S. 106; *Standard Oil v. United States*, 221 U. S. 1; *United States v. Colgate*, 250 U. S. 300; and also by this Court in *Old Dearborn Distributing Co. v. Seagrams-Distillers Corp.*, 299 U. S. 183; *The Pep Boys, etc. v. Pyroil Sales Co., Inc.*, 229 U. S. 198. Congress has disapproved price discriminations: Robinson-Patman Act, Act of June 19, 1936, c. 592, sec. 1, 49 Stat. 1526, 15 U. S. C. A. 13; and Miller-Tydings Amendment August 17, 1937, c. 690, Title VIII, 50 Stat. 693, 15 U. S. C. A. 1.

The patent owner may arbitrarily select his own customers and licensees and may lawfully refuse to sell to or license others, and may lawfully restrict his licensees to selling the patented product to certain classes of customers. The Government's contention is that the Univis Corporation has declined to license persons for a variety of reasons. Our position is that that is a legal right under patent licenses and the motive or reason is immaterial. In *U. S. v. United Shoe Machinery Co.*, 247 U. S. 32, 58 (1918) this Court said:

"Indeed we said in the *Paper Bag Patent Case* that he may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, a right of selection of persons and terms." (p. 58.)

And in the *Paper Bag Patent Case*, 210 U. S. 405, 429 (1908), this Court said:

"As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." (p. 429.)

Likewise, the Government charges that it is unlawful for a patentee to refuse to license because the prospective

licensee is a price cutter or is a bait advertiser. Here again, not only are the foregoing authorities applicable, as the right to decline to deal with a licensee for any reason, but the general right, irrespective of patents, of any trader to decline to deal, if it pleases him, with anyone, and in particular with the price cutter, has been well established by the above cases. There is no evidence in this case of any combination of the defendants with the licensees by which any agreement was arrived at either to grant, refuse, or cancel licenses of others. On the contrary, the record shows that in many instances licenses were refused or cancelled against the recommendations and proposals of other licensees, and in other cases where other licensees objected to the prospective licensees, the Univis Corporation granted the licenses, all in the exercise of its independent judgment. (R. 108-9.) The case primarily relied upon by the Government is the *Ethyl* case in support of its proposal that a patent licensee does not have the right to decline to deal, but the *Ethyl* case is excellent authority for this procedure of the appellees where it says:

"The picture here revealed is not that of a patentee exercising its right to refuse to sell or to permit his licensee to sell the patented products to price cutters." (309 U. S. 436, 457.)

And this Court further said in that case:

"This, we assume, for present purposes, it could lawfully do by virtue of the power conferred by its patent to exclude any or all others from selling the patent product." (p. 452.)

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"He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." (p. 456.)

This right so long recognized by this Court in repeated decision has become a rule *stare decisis*.

Thus in *Bement v. National Harrow Co.*, 186 U. S. 70, 88, 91, 93:

"Notwithstanding these exceptions, the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. **The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts.** The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal." (p. 91.)

"The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture **and sell the article patented upon the condition** that the assignee shall charge a certain amount for such article." (p. 93.)

"There is nothing which violates the act [The Sherman Act] in the agreement that plaintiff would not license any other person than the defendant to manufacture or sell any harrow of the peculiar style and construction then used or sold by the defendant. It is a proper provision for the protection of the individual who is the licensee, and is nothing more in effect than an assignment or sale of the exclusive right to manufacture and vend the article." (p. 94.)

This Court later held that patents are property and entitled to the same rights and sanctions as other property, which would necessarily include the right on the part of the patentee to exclude or include whomsoever he chose as one entitled to use the property, arbitrarily or for reasons, as long as no legal wrong was committed against the public or another, for this Court said:

"As to the suggestion that competitors were excluded from the use of the new patent we answer that

such exclusion may be said to have been of the very essence of the right conferred by the patent, **as it is the privilege of any owner of property to use or not use it, without question of motive.**" *Paper Bag Patent Case*, 210 U. S. 405, 429.

The reason for the right to control prices under a license is that a patentee, when he executes a license, parts with the monopoly privilege which is property. In order to prevent any injury to this property right he has the right to surround the license privilege with such limitations as are necessary to insure the enjoyment of the patent property. *Bement v. National Harrow Co.*, 186 U. S. 70; *U. S. v. General Electric Co.*, 272 U. S. 476; *Indiana Manufacturing Co. v. Case Threshing Machine Co.*, 154 Fed. 365, certiorari denied 207 U. S. 603; *Straight Side Basket Corp. v. Webster Basket Co.*, 82 Fed. (2d) 245; *Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co.*, 154 F. 358; see also *McCormack, Restrictive Patent Licenses and Restraint of Trade*; 31 Columbia Law Review 743.

And in *United States v. United Shoe Machinery*, 247 U. S. 32, 57 (1918):

"Of course, there is restraint in a patent. Its strength is in the restraint, **the right to exclude others from the use of the invention, absolutely or on the terms the patentee chooses to impose.** This strength is the compensation which the law grants for the exercise of invention. Its exertion within the field covered by the patent law is not an offense against the Anti-Trust Act. * * *

"* * * We must keep in mind the quality of the right we are considering and that the inventor gets nothing from the law that he did not have before and **that the only effect of his patent is to restrain others from dealing with or using its device.** *United States v. Bell Telephone Co.*, 167 U. S. 224, 239; *Paper Bag Patent Case*, 210 U. S. 405, 424; *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502, 510. Or to put it another way, the inventor does not get from the law

a right to a use that he did not have before but he gets the right to an **exclusive** use. Take this from him and you take all that the law gives him and to secure which the public faith is pledged. Chief Justice Marshall in *Grant v. Raymond*, 6 Pet. 218, 242.

"Indeed, we said in the *Paper Bag Patent Case* that he may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, a right of selection of persons and terms. * * *" (pp. 57-58.)

So long as there is no conspiracy, the independent trader, even without patents, has an equivalent right.

In *Federal Trade Commission v. Beech-Nut Co.*, 257 U. S. 441, 452, 453:

"By these decisions it is settled that in prosecutions under the Sherman Act a trader is not guilty of violating its terms who simply refuses to sell to others, and he may withhold his goods from those who will not sell them at the prices which he fixes for their resale." (pp. 452-3.)

And in *U. S. v. Colgate & Co.*, 250 U. S. 300, 307, 308:

"In the absence of any purpose to create or maintain a monopoly, the act does not restrict the long recognized right of trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal. And, of course, he may announce in advance the circumstances under which he will refuse to sell. The trader or manufacturer, on the other hand, carries on an entirely private business, and can sell to whom he pleases." *United States v. Trans-Missouri Freight Association*, 166 U. S. 290, 320. "A retail dealer has the unquestioned right to stop dealing with a wholesaler for reasons sufficient to himself, and may do so because he thinks such dealer is acting unfairly in trying to undermine his trade." *Eastern States Retail Lumber Dealers' Association v. United States*, 234 U. S. 600, 614. See also *Standard Oil Co. v. United States*, 221 U. S. 1, 56; *United States v. American Tobacco Co.*, 221 U. S. 106, 180; *Boston Store of Chi-*

cago v. American Graphophone Co., 246 U. S. 8. In *Dr. Miles Medical Co. v. Park & Sons Co.*, *supra*, the unlawful combination was effected through contracts which undertook to prevent dealers from freely exercising the right to sell." (p. 308.)

Therefore, the procedure of checking licensees or the reasons for refusing or granting licenses are immaterial so long as the action is within the exercise of the dominion of the patents.

Price can be controlled under patent licenses. The appellant admits that this has been the unbroken rule of this Court. *Bement v. National Harrow Co.*, 186 U. S. 70, 88, 91; *United States v. General Electric Co.*, 272 U. S. 476, 490.

Its new position is that the price control should cease upon the sale of the blank even though the patent calls for the complete lens; and more important, that this Court should reverse its holdings in the foregoing cases and decide that control of price is unlawful under a patent license. (Appellants' brief, p. 45). We submit the law is well founded upon the theory that unless the patentee receives the financial reward through adequate prices, the taking out of a patent will be a futile gesture. Unless the patentee is suitably compensated there is no inducement for him or his licensees to put into public use the teachings of the patent and make the heavy investment always incident to the development and merchandising of inventions. To say otherwise is to ignore the practical teachings of industry and the common aspirations of human nature, for as Chief Justice Marshall said in *Grant v. Raymond*, 6 Peters, 218, 241, the purpose "to promote the progress of useful arts is the interest and policy of every enlightened government."

The appellant refuses to treat patent rights like other property: it insists on regarding it as a very special and

doubtful privilege which does not have the ordinary rights of property. (Appellant's brief pages 31-2.)¹

¹ From "The Writings and Speeches of Daniel Webster," National Edition 1903, Vol. 15, pp. 438-9, Daniel Webster is reported as saying in 1852:

"• • • The Constitution does not attempt to *give* an inventor a right to his invention, or to an author a right to his literary productions. No such thing. But the Constitution *recognizes* an original, pre-existing, inherent right of property in the invention, and authorizes Congress to secure to inventors the enjoyment of that right. But the right existed before the Constitution and above the Constitution, and is, as a natural right, more clear than that which a man can assert in almost any other kind of property. What a man earns by thought, study and care, is as much his own, as what he obtains by his hands. It is said that, by the natural law, the son has no right to inherit the estate of his father—or to take it by devise. But the natural law gives a man a right to his own acquisitions, as in the case of securing a quadruped, a bird, or a fish by his skill, industry, or perseverance. Invention, as a right of property, stands higher than inheritance or devise, because it is *personal earning*. It is more like acquisitions by the original right of nature. In all these there is an effort of mind as well as muscular strength.

"Upon acknowledged principles, rights acquired by invention stand on plainer principles of natural law than most other rights of property. Blackstone, and every other able writer on public law, thus regards this natural right and asserts man's title to his own invention or earnings.

"The right of an inventor to his invention is no monopoly. It is no monopoly in any other sense than as a man's own house is a monopoly. A monopoly, as it was understood in the ancient law, was a grant of the right to buy, sell, or carry on some particular trade, conferred on one of the king's subjects to the exclusion of all the rest. Such a monopoly is unjust. But a man's right to his own invention is a very different matter. It is no more a monopoly for him to possess that, than to possess his own homestead.

"But there is one remarkable difference in the two cases, which is this, that property in a man's own invention presents the only case where he is made to pay for the exclusive enjoyment of his own. For by law the permission so to enjoy the invention for a certain number of years is granted, on the condition that, at the expiration of the patent, the invention shall belong to the public. Not so with houses; not so with lands; nothing is paid for them, except the usual amount of taxation; but for the right to use his own, which the natural law gives him, the inventor as we have just seen, pays an enormous price. Yet there is a clamor out of doors, calculated to debauch the public mind." (Emphasis by Mr. Webster.)

This Court has traditionally, without exception, for a long period of years, so that the rule has become *stare decisis*, adhered to the principle that a patent owner has a right to fix the price at which his licensee sells the patented property so long as the acts are those rightfully under the patent laws.¹ Other Courts have long followed this unbroken doctrine. Conversely, the patentee can control such prices by licensees if the acts, when unlicensed, would have amounted to contributory or direct infringement of the patent in question. And this rule has been arrived at in full recognition that a patent represents the contribution of an inventor of something the public would not have otherwise had.

In *Bement v. National Harrow Co.*, 186 U. S. 70, 93:

"The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implement manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

This is also expressed by this Court in the case of *U. S. v. General Electric Co.*, 272 U. S. 476, 490, where Mr. Chief Justice Taft, speaking for the Court, said:

¹ Among the many citations of the *General Electric Co.* case by this Court are *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27 (1931); *Standard Oil Co. (Indiana) v. United States*, 283 U. S. 163 (1931); *General Talking Pictures Corp. v. Western Electric Co.*, 304 U. S. 175 (1938), 305 U. S. 124 (1938); *Interstate Circuit Inc. v. United States*, 306 U. S. 208 (1939); *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436 (1940); *Morton Salt Co. v. G. S. Suppiger Co.*, 62 Sup. Ct. 402 (1942).

"If the patentee goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so; provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell."

And in *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436 (1940) so strongly relied upon by the Appellant:

"He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." (p. 456.)

The Government's position now is that the invention of the lens patents is practiced in the manufacture of the Univis lens blanks and the Appellees secure their entire reward for their invention by the sale of those blanks. In the first place, this statement is not a correct one as to the facts. There is no sale of these blanks into the "channels of commerce" but only a transfer of a limited property in the blanks restricted under license to a specific purpose of

grinding the blanks in cooperation with the prescription licensee for that licensee's patient. As this Court said in *U. S. v. General Electric*, 272 U. S. 476, 490 "He [the patentee] does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell."

The Appellant, therefore, sets up an untrue factual situation and falls into error consequently in its deductions. Again, the mere fixing of the royalty on the blank is meaningless unless the making of the lenses to satisfy the patient is controlled because only by so doing is the other multiplying factor of repeat order sales insured which determines the total royalty. The Appellant well knows and virtually concedes that the law as established by this Court is against it because it throws the main weight of its argument into asking this Court to overrule the *General Electric* case, giving no sound reasons for doing so. The Government must, as it has in the past, take the position that the *General Electric* case and others long approved in this Court authorize fixing of a price by a patentee.¹ The Ap-

¹ The following we understand was submitted by the Anti-Trust Division of the Department of Justice to the Temporary Economic Committee as grounds for legislation by Congress to change the recognized law as to licenses under patents.

"1. It should be made unlawful for any person to sell or assign a patent, or to grant any right or license under a patent, on any condition which restricts the assignee or grantee in respect of the amount of any article which he may produce under the patent, the price at which he may sell any such article, the purpose for which or manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce, or sell such article. The foregoing prohibitions should be supplemented by a further prohibition against any other restriction embodied in a condition to any such assignment or license, which would tend substantially to lessen competition or to create a monopoly, unless such restriction is necessary to promote the progress of science and useful arts. These prohibitions, however, should not apply to any assignment of a patent or any grant of a license under a patent for use exclusively outside the United States and its territories and possessions.

(Continued on next page)

pellant says the facts fall within *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436, to the effect that a patentee, after securing his reward by selling an article embodying the invention may not control the price, but again the factual assumption is an error because as the District Court below and other Courts have found, the article embodying the invention is the lens as the Government's Bill of Complaint fully recognized.

If the Appellant were correct that the blank should be the basis for determining a recovery under the patent, such a ruling would completely negative this Court's decision on contributory infringement or controlling by a patent elements of common commerce to be later embodied in a patent. (See pages 24-25 this brief.)

Appellant discusses the price charged by the licensee. As The Univis Corporation has the right to fix prices under its patents, the reasonableness of the price will not be determined by this Court for the sound reason set forth in *U. S. v. Socony Vacuum Oil Co.*, 310 U. S. 150, 221.¹

The last primary restriction in these licenses is one that we think (in this instance in glasses for eyes) should

¹ "The reasonableness of prices has no constancy due to the dynamic quality of business facts underlying price structures. Those who fix reasonable prices today would perpetuate unreasonable prices tomorrow, since those prices would not be subject to continuous administrative supervision and readjustment in light of changed conditions."

In short, the owner of a patent would enjoy the full patent monopoly if he elected to retain the exclusive privilege of producing or selling under the patent himself. He would be free to assign the patent; to grant an exclusive license; and to grant licenses to anyone he pleased. But, if he grants a license, the license must be general and unrestricted, unless he is prepared to demonstrate that a particular restriction (other than restrictions in respect of price, production, use, or geographical area) is necessary to promote science and useful arts. Restrictions in respect of price, production, use, or geographical areas would be unconditionally outlawed." (See Temporary National Economic Committee Preliminary Report pursuant to Public Resolution No. 113, Senate Document No. 95, 76th Congress, First Session, 1939.)

certainly commend itself as one vitally necessary for the enjoyment of the present patent property. The principle of control of the manufacturing conditions, specifications and quality of parts such as blanks that go into the finished lenses and the making of the finished lenses has been upheld by this Court. *Pick Mfg. Co. v. General Motors*, 299 U. S. 3, 4. This is because the enjoyment of the property and its associated goodwill is in direct proportion to the satisfaction of the customer and unless he receives a satisfactory quality of product the fact that the product is patented is an empty thing.

IV. All of the Activities of the Univis Licensees, If Not Licensed, Would Be an Infringement of the Patents and, Therefore, Properly Controllable Under License.

The Government urges that the monopoly is exhausted under the Univis patents on lenses by the license of the Univis Corporation to the Univis Lens Company to make the blanks and transfer them with a limited title for a specific purpose to a specific group of people. The fallacy of this position is that the rough blank has no usefulness as an ophthalmic lens as called for by the patents. (R. 673, Finding VI.) Further work must be done upon it before it becomes a lens as called for by the patents and as defined by the Government's Bill. One who sold such a blank or did further work upon it to make a lens and sold the lens would be a contributory infringer.

This blank has a distance portion of glass of one index of refraction and the near-vision insert portion of a different index of refraction of the general shape called for by the patents. It is in a crude form useful for no purpose except to meet the terms ultimately of the patents of Univis on lenses. It is not a common article of commerce. It has only one purpose and it embodies roughly the potential elements of the claims. This blank is made only for the purpose of coming within the terms of the patents.

Under such a state of facts, the case relied upon by the Government of *Carbice v. American Patents*, 283 U. S. 27, on dry ice, which is a common article of commerce and not especially made for the patented combination; *Leitch v. Barber*, 302 U. S. 458, dealing with the common article of commerce of a bituminous emulsion; and *Morton Salt v. Suppiger*, 62 S. Ct. Rep. 402 (Jan. 5, 1942), and *B. B. Chemical v. Ellis, et al.*, 62 S. Ct. Rep. 406 (Jan. 5, 1942), dealing with the control of common articles of commerce such as salt tablets, and shoe materials, have no applicability to the instant set of facts. In each of those cases there was an unwarranted attempt outside the patent monopoly by the patentees to use the patents not for the enjoyment of the patent monopoly, but only as a subterfuge to control common articles of commerce, such as dry ice, bituminous emulsion and salt. In none of those cases was the material a combination of parts specially designed but in rough form for ultimate use in the complete patented combination of elements having only one purpose, and that to be finally made into a lens inside the patent and dealt in only with that purpose in mind and with that intent.

This Court has consistently drawn the distinction between unlawful control of common articles of commerce and the lawful right of stopping a contributory infringer who is making something that has a portion of the elements or all of them, in the rough intended for the purpose *only* of ultimately infringing the patent and having no other usefulness as a common article of commerce. The case of *Leeds & Catlin v. Victor Talking Machine*, 213 U. S. 325, 333, covers the situation applying to the instant case. This distinction was drawn by this Court in the opinion of the *Carbice v. American Patents*, 283 U. S. 27, 33-35:

“Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee. Compare *Moore v. Marsh*, 7 Wall. 515, 520; *Root v. Railway Co.*, 105 U. S. 189, 214.

"The case at bar is wholly unlike *Leeds & Catlin v. Victor Talking Machine Co.*, 213 U. S. 325, 333, on which plaintiffs rely. That was an ordinary case of contributory infringement. The Victor Company sold machines embodying a patent for a combination. Leeds & Catlin were held to be infringers because the intended incorporation in the Victor machines of the article which they sold, did not constitute a repair of the machine and hence was not within the license implied on sale. *Heyer v. Duplicator Mfg. Co.*, 263 U. S. 100. There was no suggestion that the Victor Company, which itself manufactured and sold the patented product, sought 'to derive its profits, not from the invention on which the law gives it a monopoly, but from the unpatented supplies with which it is used.' In the case at bar the plaintiffs neither sell nor license others to sell complete transportation packages. They supply merely one of the several materials entering into the combination; and on that commodity they have not been granted a monopoly. Their attempt to secure one cannot be sanctioned."

This it is seen that the controlling factor in the Car-bice case was that the plaintiffs neither sold nor licensed others to sell the patented combination, or in any way sought to exploit or obtain any reward for themselves under the patent as to the patented thing but on the contrary, sought to set up a monopoly on the manufacture and sale of dry ice which was in itself a standard article of commerce and in which the plaintiffs had no patent monopoly.

V. There Has Been No Illegal Restraint of Trade in Fact Within or Without the License System.

The Government introduced into this record extensive testimony as to the existence, use and sale, of numerous competing eyeglass lens bifocals.¹ Such lenses are

¹ "It must also be observed that there is no proof that the defendants exercise among themselves or by combination with others a control of all bifocal eyeglass lenses." (Opinion, R. 668.)

those produced by the American Optical Company under the title "Ful-Vue," "Panoptic" produced by Bausch & Lomb, "Wide-Sight" produced by Shuron, "Ultex" and the largest seller of them all, "Kryptok." (R. 668.) Univis made no restriction on its licensees handling these competitive lenses. (R. 668, 677, Finding XIII.)

Univis licensees are not prohibited from using and selling these bifocals of Univis competitors. (R. 197.) The percentage of Univis bifocals sold by Univis licensees as compared to other bifocals sold by them, is only between five and six per cent. (R. 199.) The record shows that Univis has licensed about 50% of the trade which percentage is constantly increasing. Consequently, among the licensees, Univis only controls five to six per cent of the business of bifocal eyeglass lenses and as an average of all outlets, it apparently is selling only about two and a half or three per cent of the total volume of bifocal eyeglass lenses. "On its face such a small per cent would not seem to be an unreasonable restraint of trade." (R. 668; ~~Opinion.~~)

There is certainly no unreasonable restraint of trade where approximately 95% of the trade is not controlled and the public has a wide variety of highly competitive bifocal eyeglass lenses from which to choose.¹ There is no proof of any conspiracy or any charge of any conspiracy in the Bill of Complaint with such other manufacturers of other bifocals.

¹ "The Univis Corporation has consistently followed an 'open end' license policy by which all licenses of the same class are charged the same license fee and have the same prices fixed for performing the same manufacturing service; and that the licenses are open to all qualified licensees. The basis of its policy is the maintenance of highest standards of quality, service and performance by each licensee at each stage of the manufacturing process. Such policy is founded upon the peculiar nature of the business of manufacturing, prescribing, fitting and distributing eyeglass lenses in a series of successive steps, by different types of manufacturing establishments at different distances from the customer." (R. 670-1; Finding III.)

In *Standard Oil Co. v. U. S.*, 283 U. S. 163, 176; 75 L. Ed. 926; 51 S. Ct. 421, Mr. Justice Brandeis stated:

"The output of cracked gasoline in the years in question was about 26% of the total gasoline production. Ordinary or straight run gasoline is indistinguishable from cracked gasoline and the two are either mixed or sold interchangeably. Under these circumstances the primary defendants could not effectively control the supply or fix the price of cracked gasoline by virtue of their alleged monopoly of the cracking processes, unless they could control, through some means, the remainder of the total gasoline production from all sources. Proof of such control is lacking."

While the Court below found that Appellees control 100 per cent of the lenses sold under the trade-mark "Univis," yet it also found that we had licensed (without any price restriction) competitors such as American Optical and Shuron Optical Company so that there is no 100 per cent control by the Appellees through their own direct manufacturing operations of the patented lenses. American Optical Company makes the "Ful-Vue" lens and Shuron the "Wide-Sight."

There was no concert and common agreement between the licensor and the licensees to do anything outside of the scope of the patent licenses. *Intercircuit v. U. S.*, 306 U. S. 208, is not applicable, because in that case there was an agreement to unreasonably restrain the motion picture business amongst a group of competitive film corporations. No patent question was involved in that case: what was done was wholly outside any industrial monopoly.

And this Court has recognized that even outside of the patent law where the plan of doing business is such as to promote free competition in the public interest, that controls and restrictions may be so wholly in the public interest as not to violate the Sherman Antitrust Act, but to comply with it. This charter of economic freedom is found in *Appalachian Coals Inc. v. U. S.*, 288 U. S. 344:

"The decisions establish, said this Court in *Nash v. United States*, 229 U. S. 373, 376, 'that only such contracts and combinations are within the act as, by reason of intent or the inherent nature of the contemplated acts, prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade.' See *Standard Oil Co. v. United States*, 221 U. S. 1; *United States v. American Tobacco Co.*, 221 U. S. 106; *Chicago Board of Trade v. United States*, 246 U. S. 231, 238; *Window Glass Manufacturers v. United States*, 263 U. S. 403, 412; *Maple Flooring Association v. United States*, 268 U. S. 563, 583, 584; *Paramount Famous Corp. v. United States*, 282 U. S. 30, 43; *Standard Oil Co. v. United States*, 282 U. S. 163, 169.

"In applying this test, a close and objective scrutiny of particular conditions and purposes is necessary in each case. Realities must dominate the judgment. The mere fact that the parties to an agreement eliminate competition between themselves is not enough to condemn it." (p. 36)

A patentee could make the blank in one department and then grind the lens in another department of the same plant according to the prescription of a third department and the design instructions of a fourth department and after the lens is ground deliver it to the service department which, after checking in cooperation with the sales department, would sell the lens at some stipulated price through the sales organization of the patentee-manufacturer. (In a small percentage of special prescriptions Univis does this.) All that Univis has done is only this by meeting the necessities of the public and the trade of performing these same operations by separate licensees each of whom own their own businesses. The manufacturer, if he could conduct this business in one plant, would follow the conventional practice of charging the blank out of the blank department at a fixed price to the grinding department and the grinding department would charge out the ground lens to the sales department at another price and so on

until the final price to the customer by the sales department.

This system of Univis licenses promotes competition because, instead of monopolizing all of these functions of these departments in one great factory, it shares this business with thousands of independent concerns each of whom are thereby enabled in their own community to make a livelihood, to serve the customers as well as the patentee. Is this monopoly?

This Court has held that where the percentage of the trade controlled by a group such as these licensees would not constitute a restraint of trade as a monopoly if merged together, it cannot be treated as restraint of trade because independently owned and operated. *Appalachian Coals Inc. v. U. S.*, 288 U. S. 344. Univis with all of its thousands of licensees only sells about $2\frac{1}{2}\%$ of all of the bifocal eyeglass lenses. It has no restraint upon its licensees in selling other lenses which constitute the other $97\frac{1}{2}\%$ of the trade. Can we say that this is an unreasonable restraint of trade because Univis has elected with an open end license policy to give thousands of independents the chance to operate and survive economically it is committing a restraint of trade which would not be the case if all the work was done in a single organization?

This Court has held that price fixing is only illegal *per se* in unpatented subject matter and that the right to fix a price, select customers and determine quality is the right of a patentee. Our point is there could be no conspiracy in carrying out these normal patent functions with licensees due to trade necessity when there would be no difference in effect if the same thing were performed in a single plant of many departments or many plants owned by a common ownership. Univis has elected not to follow the owned branch method of distribution of the optical trade but to give the independents an opportunity to enjoy their little profit of their businesses in the promotion of what it believes to be the correct system of free enterprise. This promotes competition.

The Government (brief, p. 60) misstates the rule as to price fixing being illegal *per se* in unpatented matter because it omits the careful qualification of that statement by this Court that such price fixing *per se* is illegal only in the event of existence of one or the other of two conditions: either "if the combination has a control of a substantial part of a commerce in that commodity" or "where the means for price fixing are purchases or sales of the commodity in a market operation" so that the result is the same as the control of a substantial part of the commerce in the commodity even though that be not a fact. Univis does not control either a "substantial part of the commerce" in lenses and does not have any means of strategically accomplishing the same result with a lesser per cent because its entire license system could not effect more than this minor part of the business. The District Court so found that fact (R. 677; Finding XIII); *U. S. v. Socony Vacuum*, 310 U. S. 150, 224; *Apex Hosiery Company v. Leader*, 310 U. S. 469, 485. "The nature of the restraint and its effect on interstate commerce" may be effected either through the amount or the strategy of dominating the commerce where that is of a restrictive nature. Nothing of that sort appears here: *Sugar Institute v. United States*, 297 U. S. 553, 597:

"* * * The restrictions imposed by the Sherman Act are not mechanical or artificial. We have repeatedly said that they set up the essential standard of reasonableness. *Standard Oil Co. v. United States*, 221 U. S. 1; *United States v. American Tobacco Co.*, 221 U. S. 106."

The claim in appellant's brief that the Univis license system was used to control other types of goods sold by the Univis licensees is without foundation in fact. The Court made no such finding.

The fact that Univis treats all licensees of the same class alike is not an evidence, as claimed, of a conspiracy to make a rigid price control: it is required as a matter of law. Robinson-Patman Act U. S. C., title 15, sec. 13.

VI. The Isolated Titmus Incident.

The only specific instance of restraint relied upon by the Government was the Titmus situation. The learned District Court in connection with this Titmus incident, disposed of it by saying:

"It is true that the Titmus case is but an isolated instance and it may be doubted whether the proof is of sufficient weight to justify the conclusion that in and of itself it amounts to a violation of the anti-trust acts." (R. 668.)

Univis had a right to notify Titmus it would be sued under its patents. In *Virtue v. Creamery*, 227 U. S. 8, Mr. Justice McKenna said:

"* * * Patents would be of little value if infringers of them could not be notified of the consequences of infringement or proceeded against in the courts * * *." (p. 37.)

See also *Bement & Sons v. National Harrow Co.*, 186 U. S. 70, 92.

Likewise Univis had the right as well as the legal and moral obligation to agree with its licensees that it would promptly attack all infringers of the licensed patents.

Walker on Patents, Deller Edition, page 1546, states:

"An agreement to defend all infringement suits brought against a licensee and to promptly attack all infringers of the licensed patent, was held not to show a common and illegal purpose between the licensor and licensee [*Virtue v. Creamery Pkge. Co.*, 227 U. S. 8, 57 L. Ed. 393 (1913)]; such an agreement is 'but an assurance of title to the rights conveyed.' [*Virtue v. Creamery, supra.*] * * *" (p. 1546.)

The District Court relied upon a letter from the Univis Company to one of its licensees, Johnstone, as evidence of a conspiracy between the appellees and this licensee with regard to the Titmus Company (R. 677). This letter was merely an expression of appreciation on the part of the

Univis Company of the independent and voluntary action of the licensee which was not the result of any coercion, persuasion or urgency of the Univis Company. On the contrary, the record shows that the Univis Company wrote its licensees with regard to the Titmus Company as follows:

"Your offer of cooperation is indeed appreciated but we want you to know that any steps taken by license distributors to protect their own interest must be entirely voluntary and without any solicitations from us." (R. 258.)

We submit, therefore, that there is no evidence in the record of any conspiracy or coercion or persuasion between the defendants and any of their licensees to interfere with the Titmus Company, but the record shows that whatever action was taken by the licensees was their own voluntary and unsolicited action, and that as to this isolated instance, whatever the defendants did is fully justified under the law.

VII. The Fair Trade Agreements Are Valid Under the Miller-Tydings Amendment.

The appellees adopted Fair Trade Contracts to protect further the good will under the trademark "Univis"—a separate right from their patents.

It is not disputed that the Millers-Tydings Amendment removes any and all taint of illegality as to a restraint of trade or otherwise from any "contracts or agreements prescribing prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand or name of the producer or distributor of such commodity, and which is in free and open competition with commodities of the same general class produced or distributed by others when contracts or agreements of that description are lawful as applied to intrastate transactions under any statute, law or public policy now or hereafter

in effect in any state, territory or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such sale."

It is not disputed that forty states in the Union have passed laws providing in substance that as to intra-state business in those states a producer or distributor may require any dealer not to resell a trademarked article except at prices fixed by the producer or distributor. As stated by this Court in *Old Dearborn v. Seagrams Distillers*, 299 U. S. 183, 193:

"The primary aim of the law is to protect the property—namely the good will—of the producer, which he still owns. The price restriction is adopted as an appropriate means to that perfectly legitimate end and not as an end in itself."

It is not disputed that the finding of the District Court was correct that the appellees' product is in free open competition with commodities of the same general class produced or distributed by others (R. 677) and it is equally undisputed that the Univis Lens Company produces and distributes the lens blanks, and about one-tenth of one percent of its business consists of the manufacture and sale of the completed lenses from these blanks, and that both the blanks and the completed lenses are sold under the trademark "Univis" which is owned by the Univis Lens Company.

On page 73 of its brief the Government suggests that "Univis" is not a valid trademark. The Miller-Tydings Amendment does not require the trademark to be a valid registrable trademark. Even the name of a producer or a "brand"—which need not be a registrable trademark is sufficient if it identifies the product and the good will that is to be protected.

The District Court relied in support of its position upon the case of *Mallinson Fabrics Corp. v. R. H. Macy & Co.*, 14 N. Y. S. 203. The facts of that case are fun-

damentally different from those of the case at bar. The Mallinson Fabrics Corporation manufactured and sold a particular kind of silk cloth under the trademark "Mallinson's Pure Silk Pussy Willow." It did not make or sell dresses made from this cloth and had no trademark applicable to completed dresses, or any goodwill in the dress business.

All that the Court held was that the Mallinson Corporation had no trademark on the completed dress and that therefore the New York Fair Trade Act was not applicable. In the case at bar the trademark "Univis" was applicable to and covered both the "blank" and the completed lens. The Univis Lens Company is the producer and distributor of the blanks. It also occasionally makes and sells the completed lens. The mere fact that in the majority of instances other licensees complete the blank into the finished lens under the supervision of the Lens Company does not operate to prevent the completed lens from being the product of the Univis Lens Company within the purview of the Miller-Tydings Amendment, for the whole foundation of its goodwill depends upon the subsequent lens manufacture.

The cardinal fact is that the blank as it is progressively worked upon does not change its purpose and ultimate objective from the crude form to the finished lens. It has no other use than to become a lens. There is no resale of the completed article but if a resale is construed to have taken place, the right to control that resale price exists in the protection of the good will.

As to the Univis Lens Company being the producer of the finished lens within the provisions of the Miller-Tydings Amendment, and contrary to the holding of the District Court, we quote the following from Paragraph 9 of the Bill of Complaint of the Government in this action (R. 5):

"The term 'Univis bifocal,' or 'Univis lens,' wherever used in this complaint, refers to a type of bifocal lens incorporating features claimed by certain patents controlled by defendant Univis Corporation, which

bifocals are distributed by defendant Univis Lens Company."

It is settled law that the owner of a trademark does not have to personally manufacture the trademarked article, but may have it manufactured and distributed for him under his control. See *Menendez v. Holt*, 128 U. S. 514, 520; *General Baking Co. v. Commander-Larabee Corporation*, 82 F. (2d) 427, 431 (C. C. P. A.).

We submit that the Univis Lens Company having properly trademarked products made for it under its trademark or partly made by it and then fully finished for it or on its behalf by others, comes fairly and fully within the meaning of the provisions of the Miller-Tydings Amendment as the producer and distributor of the trademarked articles. This justifies and makes valid the Fair Trade Contracts regardless of the patent licenses in the protection of "the property—namely the good will—of the producer."

VIII. The Appellees Were Not Subject to the Jurisdiction of the District Court.

All of the appellees in this action are non-residents of the Southern District of the State of New York. The Univis Corporation is a Delaware corporation, and the Univis Lens Company an Ohio corporation, and the individual appellees are all residents of Ohio. None of the appellees was found within the Southern District of New York at the time of the service of the summons in this action, such service having been made by delivery of a copy thereof to the appellees by the United States Marshal for the Southern District of Ohio, outside of the jurisdiction of the Southern District of New York.

It is not disputed that Section 4 of the Sherman Anti-trust Law vests the district courts of the United States with jurisdiction to prevent and restrain violations of the Act, but the institution of any such action must be in accordance

with proper venue as provided in the Statutes, which is only in a district whereof the defendant is an inhabitant. See Section 51, *Judicial Code*, 28 U. S. C. A. 112.

Section 5 of the Sherman Antitrust Act provides in substance that other parties may be brought before the Court whether they reside in the district or not, but to make such section applicable, at least one of the defendants must be a resident of the district in which the suit was commenced. See *Standard Oil Co. v. U. S.*, 221 U. S. 1, 46.

The facts are undisputed that none of the appellees is a resident of the Southern District of New York, and it is believed that there is no evidence in the record that any of the appellees was "found" within the Southern District of New York within the contemplation of law. While Section 12 of the Clayton Act Amendment provides that antitrust suits may be brought in any district wherein a defendant "may be found or transacts business," under the well settled rules of law as to what constitutes being "found" in a district, it is submitted that none of these appellees was "found" in the Southern District of New York or does business in that district. See *International Harvester Co. v. Kentucky*, 234 U. S. 579; *Bank of America v. Whitney Bank*, 261 U. S. 171, 173; *Cannon Mfg. Co. v. Cudahy Packing Co.*, 267 U. S. 333; *Consolidated Textile Corp. v. Gregory, Judge*, 289 U. S. 85; *Peoples Tobacco Co. v. American Tobacco Co.*, 246 U. S. 79; *Green v. Chicago, Burlington & Quincy Ry.*, 205 U. S. 530.

It is therefore submitted that the lower court was in error in failing to sustain the motion of the appellees to vacate and quash the service of the summons. (R. 45.)

XI. CONCLUSION.

From all of the above it follows that the decree below, insofar as it sustains the Bill of Complaint as to the prescription and fitting licenses of the appellees and the Fair Trade Contracts of the appellees with their licensees and

the isolated Titmus incident, should be reversed, but in all other respects, the decree should be affirmed, and the entire Bill of Complaint here dismissed.

Respectfully submitted,

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